TRANSNET

TRANSNET MANDATE

SHAREHOLDER EXPECTATIONS

Transnet is committed to enabling economic growth through providing integrated, appropriate port, rail and pipeline infrastructure and operations in a cost-effective and efficient manner and within acceptable benchmark standards.

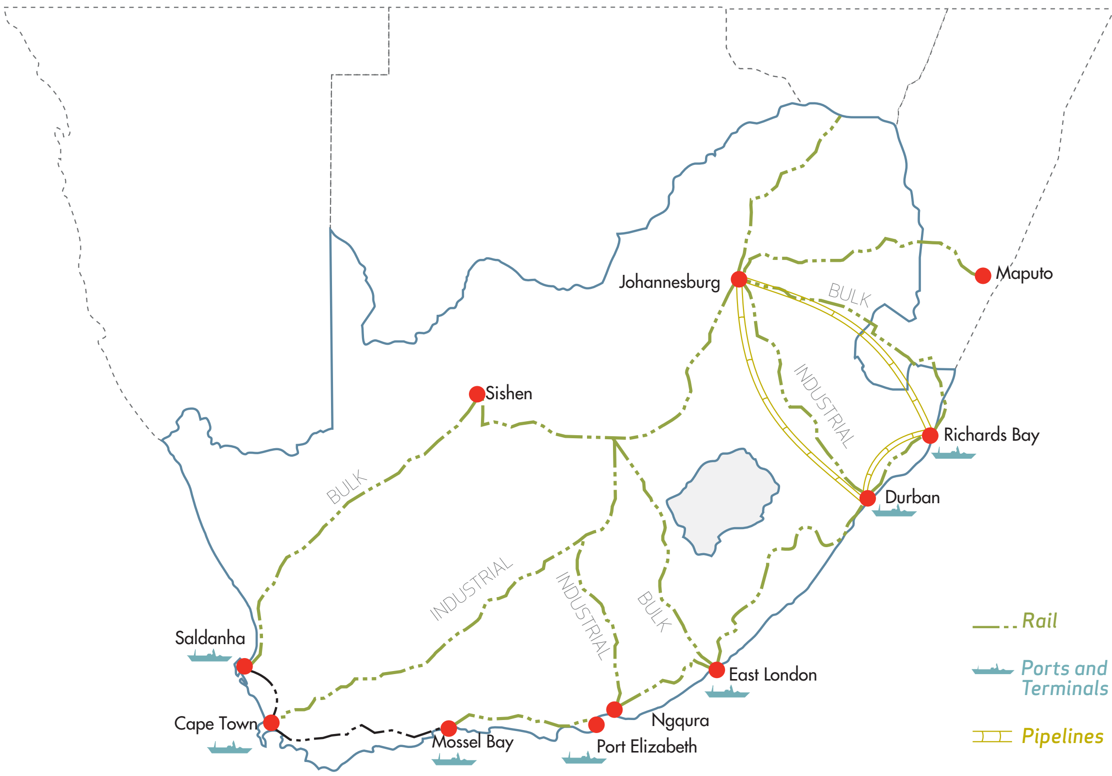
This commitment is consistent with Transnet's shareholder's expectation as set out in, amongst others, the Shareholder Compact between Transnet and the Government of the Republic of South Africa.

The Company continues to give meaning to its strategic intent through the implementation of the four-point turnaround strategy.

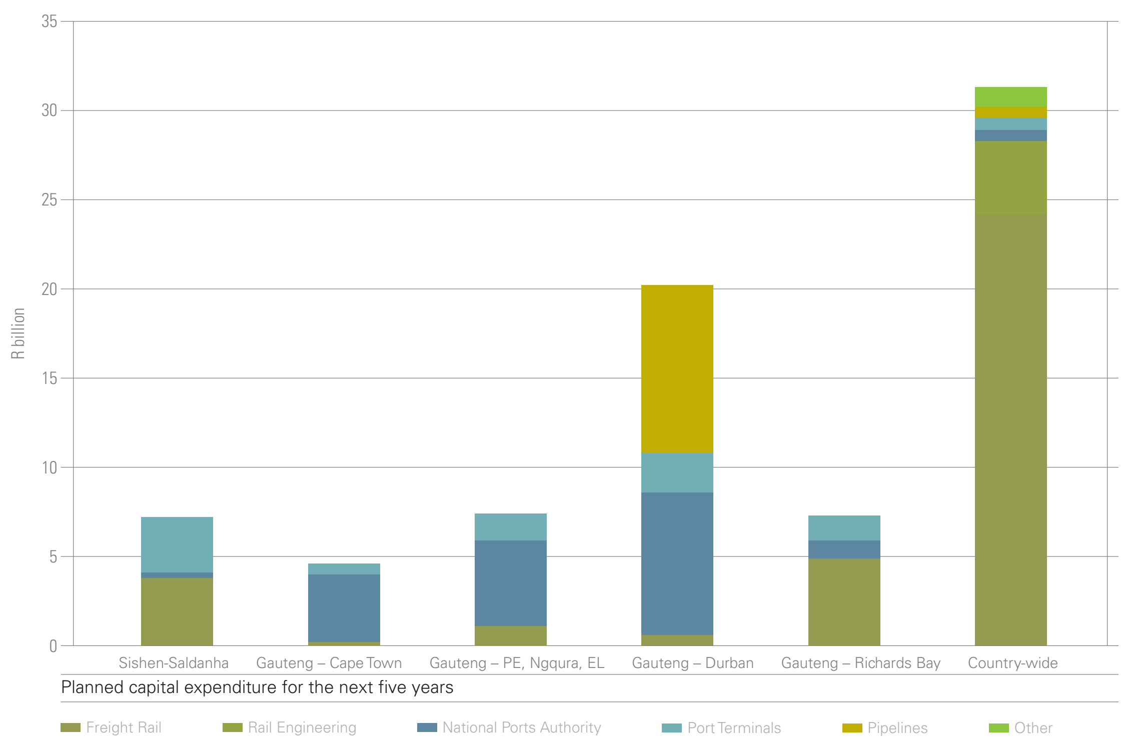
STRATEGY

DELIVERING ON OUR COMMITMENTS

Operational reach



Capital expenditure by corridor



Planned capital expenditure for the next five years

GROUP STRUCTURE

ONE COMPANY ONE VISION

TRANSNET	Transnet is the custodian of major rail, port and pipeline assets in South Africa. With more than R77 billion in assets and employing more than 48 000 people, it provides seamless and integrated bulk freight services through five interdependent operating divisions namely: Freight Rail, Rail Engineering, National Ports Authority, Port Terminals and Pipelines. Transnet Ltd's only shareholder is the State.
TRANSNET freight rail	Transnet Freight Rail (previously Spoornet) operates freight trains serving customers in export mining (coal and iron ore), mining, manufacturing, agriculture and forestry and containers and automotive. It has a 22 247 km rail network, of which about 1 500 km are heavy haul lines. Its infrastructure represents about 80% of Africa's rail infrastructure.
TRANSNET rail engineering	Transnet Rail Engineering (previously Transwerk) is responsible for in-service and out-of-service maintenance, refurbishing, wreck repair, conversions and upgrade of locomotives, wagons and coaches, manufacture of new wagons, wheels, bogies and rolling stock components. Rail Engineering has 150 depots and seven factory centres countrywide.
TRANSNET national ports authority	Transnet National Ports Authority (previously National Ports Authority) is responsible for the safe, efficient and effective economic functioning of the national ports system which it manages, controls and administers on behalf of the State. It manages the seven ports within South Africa, namely: Saldanha Bay, Cape Town, Mossel Bay, East London, Port Elizabeth, Durban and Richards Bay. The Port of Ngqura, when operational, will become the eighth port under National Ports Authority's control.
TRANSNET port terminals	Transnet Port Terminals (previously South African Port Operations) is responsible for cargo handling and logistics management solutions. Its port operations service customers across a broad spectrum of the economy including the shipping industry, vehicle manufacturers, agriculture sector, steel and mining industry. The division operates 15 port terminals across six South African ports.
TRANSNET pipelines	Transnet Pipelines (previously Petronet), the pipeline operating division of Transnet, will ensure the security of supply of critical energy (in the form of petroleum products) through its network of 3 000 km of underground pipelines. It serves the South African oil industry and operates throughout the eastern parts of South Africa, along the Durban to Gauteng corridor, traversing five provinces: KwaZulu-Natal, Free State, Gauteng, North West and Mpumalanga.

The above operating divisions are supported by Transnet Projects, Transnet Properties, Esselen Park and Group Services.

GROUP KEY PERFORMANCE INDICATORS
for the year ended 31 March 2007

TOTAL REVENUE INCREASE (%)

	Target 2007	Actual 2007	Target 2008
Total Group	12,7	8,4	13,0
Freight Rail	13,9	4,0	12,0
National Ports Authority	9,0	12,0	11,4
Port Terminals	12,0	14,0	15,0
Pipelines	6,3	15,0	17,0

Performance
The Group did not achieve its revenue objective in the current year, due mainly to the under-performance at the Freight Rail operating division. This division experienced capacity constraints and derailments as well as customer-related problems.

Forecast performance
The Group is confident that it will be able to improve performance in the year ahead. The focus for the year ahead will be aimed at achieving targeted revenue growth from increased volumes transported.

INFRASTRUCTURE INVESTMENTS

	Target 2007	Actual 2007	Target 2008
Actual capital expenditure compared to budget (R million)	11 847	11 674	16 935
% achieved	90	99	> 90

Performance
The Group exceeded its target and demonstrates the commitment of the Group to provide customer service, address the investment backlog and provide a stable platform to support economic growth.

Forecast performance
The target for the year is 42% higher than the current year spend. The Group is confident that the target will be achieved. A Capital Projects operating division has been established to drive and manage all infrastructure projects in excess of R300 million. The focus of the division will be to improve capital planning and execution processes within the Group.

	Target 2007	Actual 2007	Target 2008
Total maintenance spend compared to budget – Freight Rail	3 890	5 495	5 247
% achieved	90	125	> 90

Performance
The Group exceeded its target and continues to address backlog maintenance in an effort to improve poor reliability and availability of rolling stock and consequently improve customer service.

Forecast performance
The programme addressing the historical under-maintenance of locomotives, wagons and infrastructure, which was in its second year during the year, will further address poor reliability. This programme is expected to come to an end during 2009, by which stage a comprehensive preventative maintenance plan, covering all aspects of the Freight Rail fleet, will be implemented.

CAPITAL AND FINANCIAL EFFICIENCY

	Target 2007	Actual 2007	Target 2008
EBITDA margin (%)	34,8	40,7	> 35*

Performance
The Group exceeded its target for the year by 17%. All operating divisions contributed to the Group's performance. Revenue growth (refer above) and operating efficiencies contributed to this performance.

Forecast performance
The Group adopted a medium-term target of margins in excess of 35%.

	Target 2007	Actual 2007	Target 2008
Cash flow return on investment (CFROI) (%)	5,8	6,8	> 6*

Performance
The Group exceeded its target and demonstrated its ability to earn an appropriate return on investment capital.

Forecast performance
The Group adopted a medium-term target of greater than 6%. However, in the year ahead the capital expenditure programme will make the target difficult to achieve.

	Target 2007	Actual 2007	Target 2008
Gearing ratio (%)	47,9	39,0	< 50*

Performance
The Group exceeded its target and this provides a stable platform from which to support the capital expenditure programme. The improvement is due mainly to the reduction in the post-retirement benefit obligations of the Group.

Forecast performance
The Group adopted a medium-term target of between 40% and 50%.

	Target 2007	Actual 2007	Target 2008
Cash interest cover (times)	5,4	5,4	> 5*

* Medium-term targets

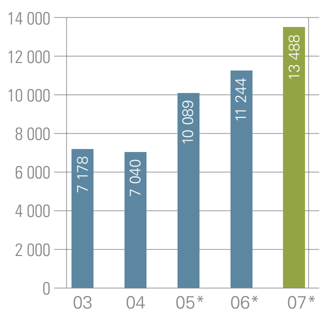
Performance
The Group achieved its target and this demonstrates the ability to generate strong operational cash flows and service its obligations.

Forecast performance
The Group adopted a medium-term target of greater than 5 times. However, in the year ahead the capital expenditure programme will make the target difficult to achieve.

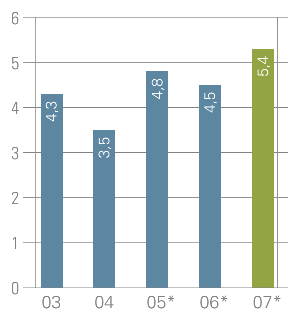
CONSOLIDATED SALIENT FEATURES
for the year ended 31 March 2007

	2007* **R million**	2006* R million	% change
Revenue	**28 214**	26 034	8,4
EBITDA	**11 488**	10 301	11,5
Operating profit	**8 470**	8 138	4,1
Profit for the year	**6 322**	4 828	30,9
Number of ordinary shares issued (millions)	**12 661**	14 710	(13,9)
Profit per share (cents)	**49,9**	32,8	52,1
Total assets	**77 254**	78 346	(1,4)
Total debt	**39 821**	48 820	(18,4)
Capital and reserves (including minorities)	**37 433**	29 526	26,8
Cash flows from operating activities	**13 488**	11 244	20,0
Capital expenditure (excluding intangibles)	**11 674**	6 601	76,9
EBITDA margin (%)	**40,7**	39,6	2,8

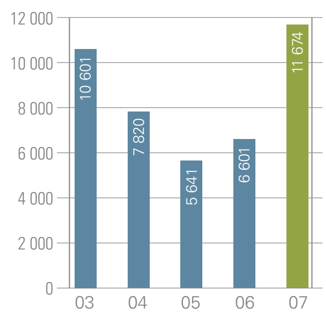
Refer glossary of terms on page 245
* Continuing operations



Cash generated from operations (R million)



Cash interest cover (times)



Capital expenditure (R million)

HIGHLIGHTS

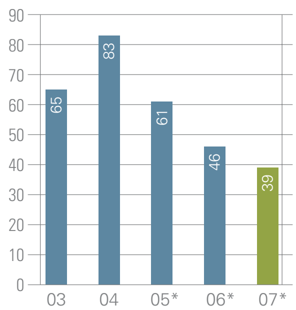
Revenue – continuing operations **R28 214** million 8% change

EBITDA – continuing operations **R11 488** million 12% change

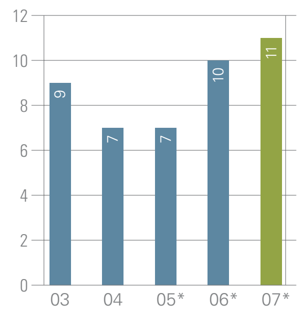
CONSOLIDATED PERFORMANCE INDICATORS
for the year ended 31 March 2007

	March 2007*	March 2006*	March 2005*	March 2004	March 2003
PROFITABILITY MEASURES					
EBITDA margin (%)	**40,7**	39,6	29,0	17,0	21,9
Return on average total assets (%)	**11**	10	7	7	9
SOLVENCY RATIOS					
Gearing ratio (%)	**39**	46	61	83	65
Cash interest cover (times)	**5,4**	4,5	4,8	3,5	4,3
CASH FLOW MEASURES					
Operating cash flow to total debt (%)	**34**	23	18	12	17

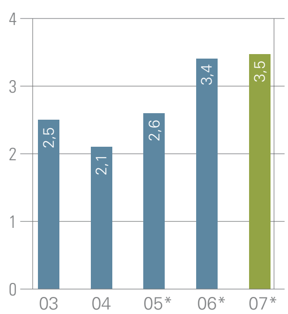
* Continuing operations



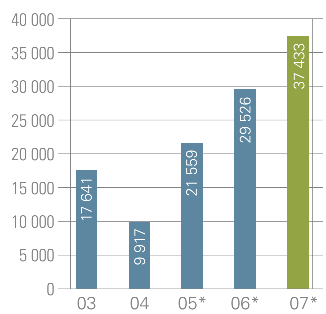
Gearing (%)



Return on average total assets (%)



Interest cover (times)



Net assets employed (R million)

Cash flow generated from operations

R13 488 million

20% change

Gearing – continuing operations

39%

15% improvement

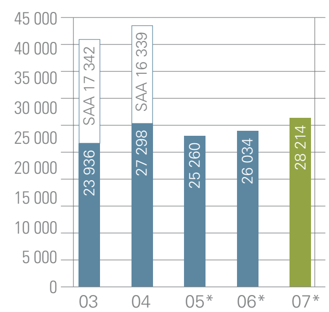
CONSOLIDATED FIVE-YEAR REVIEW

for the year ended 31 March 2007

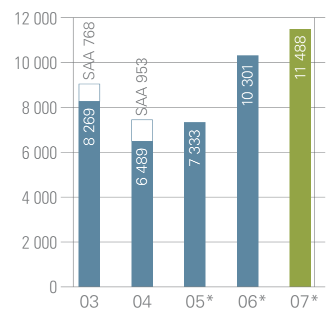
	March 2007* R million	March 2006* Restated R million	March 2005* Restated R million	March 2004 R million	March 2003 R million
INCOME STATEMENT AND CASH FLOW					
Revenue	**28 214**	26 034	25 260	43 637	41 278
EBITDA	**11 488**	10 301	7 333	7 442	9 037**
Depreciation and amortisation	**(3 018)**	(2 163)	(1 857)	(2 600)	(2 258)
Operating profit	**8 470**	8 138	5 414	4 750	6 552**
Fair value adjustments	**2 385**	815	4 890	(4 529)	(7 074)
Net finance costs	**(2 437)**	(2 406)	(2 107)	(2 211)	(2 637)
Profit/(loss) before taxation	**8 222**	6 837	7 330	(6 211)	(625)
Taxation	**(1 902)**	(2 042)	(1 582)	204	16
Profit/(loss) for the year	**6 322**	4 828	5 810	(6 332)	(421)
Cash generated from operations	**13 488**	11 244	10 089	7 040	7 178
BALANCE SHEET					
Equity	**37 433**	29 526	21 559	9 917	17 641
Non-current liabilities	**22 832**	22 189	30 789	32 217	32 669
Current liabilities	**16 989**	26 631	25 228	30 566	18 456
Total debt	**39 821**	48 820	56 017	62 783	51 125
Equity and liabilities	**77 254**	78 346	77 576	72 700	68 766
Non-current assets	**57 843**	50 144	59 967	57 156	54 883
Current assets	**19 411**	28 202	17 609	15 544	13 883
Total assets	**77 254**	78 346	77 576	72 700	68 766

* Continuing operations

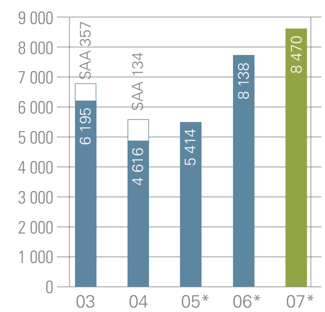
** Excluding R2,8 billion relating to the sale of MTN Group Ltd shares and the sale of Fleetcall.



Revenue (R million)



EBITDA (R million)



Operating profit (R million)

Equity attributable to the shareholder

R37 311 million

27% change

Cash flow return on investment (CFROI)

6,8 %

17% change

BOARD OF DIRECTORS

1. Mr FTM Phaswana (62)
Chairman
BA (Hons), BCom (Hons) (Energy Economics), (RAU), MA (SA)

Other directorships and trusteeships
Chairman: Anglo American Corporation of South Africa Ltd
Chairman: Ethos Private Equity Ltd
Chairman: Anglo Platinum Ltd
Anglo American Plc
Naspers Ltd
Media24 Ltd
Inyathelo Trust (The South African Institute for Advancement)

2. Mr BT Ngcuka (53)
BProc (University of Fort Hare), LLB (University of South Africa), MA (International Relations) (Webster University, Geneva, Switzerland)
Businessman

Other directorships and trusteeships
Chairman: Vuwa Investments (Pty) Ltd
Chairman: City Couriers (Pty) Ltd
Chairman: Top Fix Holdings Ltd
Chairman: Basil Read Holdings Ltd
Chairman: Transnet Foundation Trust
The PA Group Ltd
Growthpoint Properties Ltd
Mutual & Federal (Pty) Ltd
Sail Group Ltd
Rolfes Ltd
STRB Attorneys
Amadlelo Agri

3. Ms M Ramos (48)
Group Chief Executive
Institute of Bankers Diploma (CAIB) (Institute of Bankers), BCom (Hons) (Economics) (Wits), MSc in Economics (University of London)

Other directorships and trusteeships
Sanlam Ltd
Remgro Ltd
Patron of Yabonga Children's Project

4. Ms KC Ramon (40)
BCompt (Hons), CA(SA), Senior Executive Programme Graduate (Harvard Business School in conjunction with Wits Business School)
Chief Financial Officer: Sasol Ltd

Other directorships
Sasol Ltd

5. Mr PG Joubert (74)
BA (Rhodes), DPWM (Rhodes), AMP (Harvard)
Director of companies

Other directorships and trusteeships
Chairman: BDFM Publishers (Pty) Ltd
Chairman: Munich Reinsurance Company of Africa Ltd
Chairman: Sandvik (Pty) Ltd
Sandvik Mining and Construction RSA (Pty) Ltd
South African Airways (Pty) Ltd
Cycad Financial Holdings Ltd
IMS Holdings (Pty) Ltd
South African Brain Research Institute
Voest-Alpine Mining and Tunnelling

6. Dr I Abedian (51)
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 and Pan African Investment and Research Services

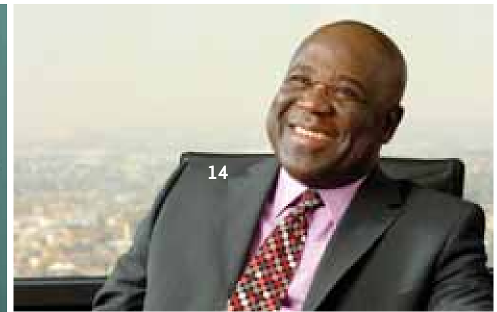
Other directorships and trusteeships
AFReC (Pty) Ltd
Chairman: PBS (Pty) Ltd
Munich Reinsurance Company of Africa Ltd
Development Bank of Southern Africa
Clopique 98 (Pty) Ltd
Velvet Moon Stones (Pty) Ltd
IAMA Global Trade (Pty) Ltd
Transnet Second Defined Benefit Fund

7. Prof GK Everingham (57)
BCom (UPE), BCom (Hons) (UCT), MAS (Illinois), CA(SA)
Professor of Accounting at UCT

Other directorships and trusteeships
Chairman: Diocesan College (Bishops) Council
Chairman: Chris Barnard Fund
GK Everingham Investments (Pty) Ltd

8. Ms NBP Gcaba (36)
B Juris (University of Fort Hare), LLB (University of Natal)
Partner at Spoor & Fisher Attorneys

Other directorships and trusteeships
Transnet Retirement Fund Property Trust
Transnet Second Defined Benefit Fund



9. Ms Z Stephen (33)
Group Company Secretary
BProc (University of Durban-Westville)
LLB (University of Natal)
Post-graduate Diploma in Corporate Law (Unisa)

10. Mr CF Wells (57)
Chief Financial Officer
BCom (University of Cape Town), CA(SA)

Other directorships and trusteeships
Chairman: Transnet Pension Fund
Sethani Ltd (section 21 Company)
Transpoint Properties (Pty) Ltd

11. Ms NR Ntshingila (43)
Diploma in Advertising – AAA School of Advertising, BA (University of Swaziland)
MBA – Morgan State University, Maryland (USA)
Chief Executive Officer: Ogilvy – South Africa

Other directorships and trusteeships
Chairman: Ogilvy PR
Chairman: Zoom
Ogilvy Africa
PWC CSI Board
Ntinta Investment

12. Dr ND Haste OBE (62)
OBE for Services to Civil Engineering
Chief Executive Officer: Aldar/Laing O' Rourke JV
Chief Operating Officer: Laing O' Rourke Middle East

Other directorships and trusteeships
Al Naboodah Laing O' Rourke
DLF-Laing O' Rourke

13. Ms NNA Matyumza (44)
BCom (University of Transkei), BCompt (Hons) (University of Transkei), LLB (University of Natal)
General Manager: Eastern Region, Eskom Distribution

Other directorships and trusteeships
Born Free Investments (Pty) Ltd
Ikusasalethu Investments
E-Valuations
South African Women's Association (SAWA)

14. Dr SE Jonah KBE (57)
ACSM, MSc, DIC, DSc (hc) D Phil (Lc)
Chairman: Jonah Capital (Pty) Ltd

Other directorships and trusteeships
Anglo American Corporation of South Africa Ltd
Copper Resources Corporation
Moto Goldmines Ltd
Standard Bank of South Africa
Chairman: Equator Exploration (Pty) Ltd
Chairman: Scharrig Mining Ltd
Co-Chairman: Uramin Resources Inc
Chairman: Transnet Second Defined Benefit Fund

15. Mr S Nicolaou (42)
Bachelor of Pharmacy (University of the Witwatersrand)
International Trade (Institute of International Trade of SA)
Group Senior Executive: Strategy and Trade Development: Aspen Pharmacare Holdings Ltd

Other directorships and trusteeships
Chairman: South African Express Airways (Pty) Ltd
Aspen Pharmacare International (Pty) Ltd
Garec Pharmaceuticals (Pty) Ltd
Merck Msizi Trust
Merck Msizi Advisory Board

The Executive Committee is mandated to execute the Board-approved strategy.

1. **Mr CA Möller** (Chief Executive: Transnet Pipelines)

2. **Mr T Morwe** (Chief Executive: Transnet Port Terminals)

3. **Mr R Vallihu** (Chief Executive: Transnet Rail Engineering)

* By invitation

4. **Mr KXT Socikwa** (Head: Restructuring)*

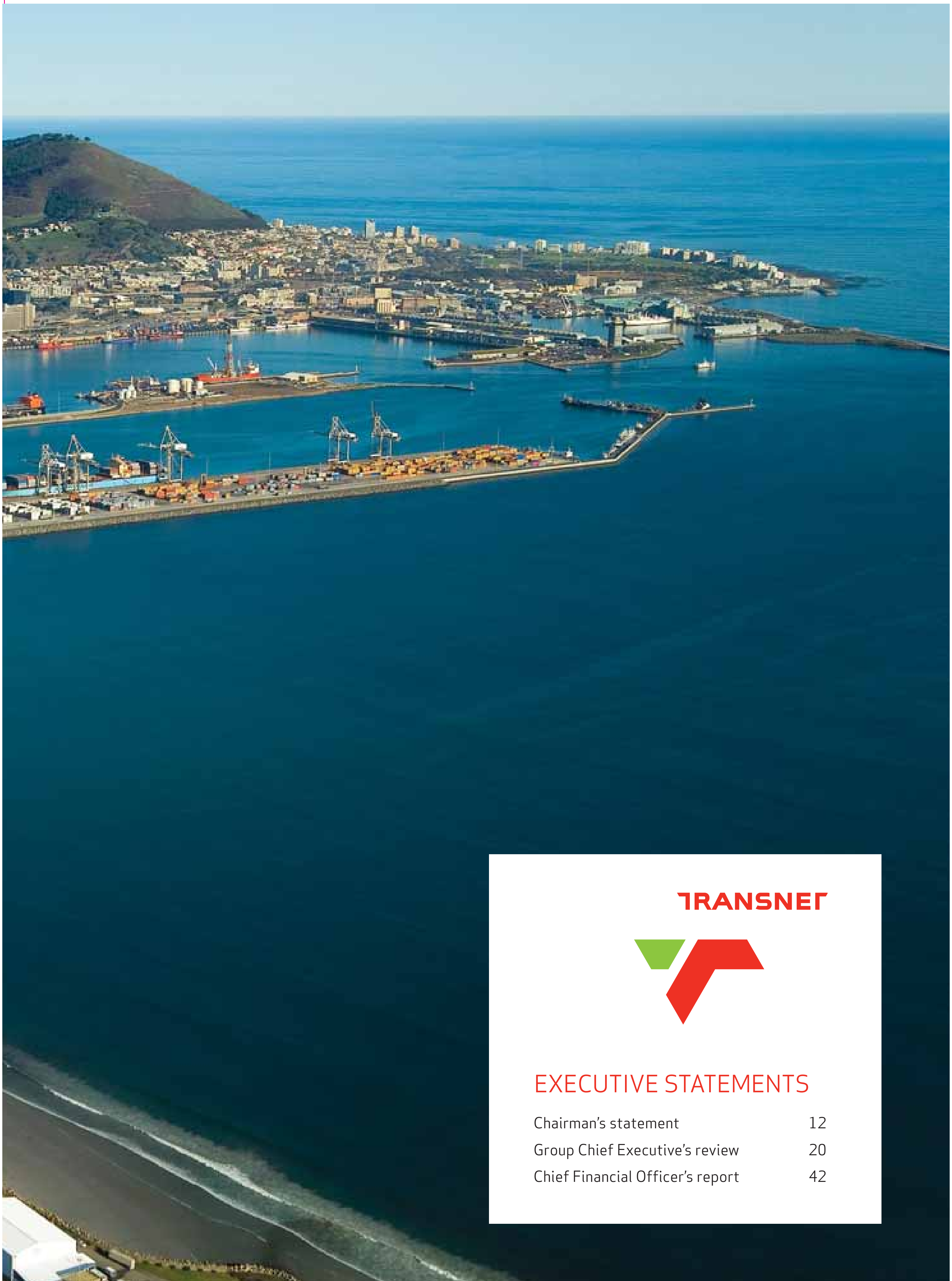
5. **Mr BJ Dludlu** (General Manager: Corporate and Public Affairs)*

6. **Mr KC Phihlela** (Chief Executive: Transnet National Ports Authority)

7. **Mr CF Wells** (Chief Financial Officer)

8. **Mr L van Niekerk** (Chief Operating Officer)
9. **Mr P Maharaj** (Group Executive: Human Resources)
10. **Ms M Moses** (Group Executive: Transnet Projects)
11. **Ms V Dunjwa** (Chief Risk Officer)
12. **Ms Z Stephen** (Group Company Secretary)
13. **Mr VD Kahla** (Group Executive: Office of the Group Chief Executive)
14. **Ms M Ramos** (Group Chief Executive)
15. **Mr SI Gama** (Chief Executive: Transnet Freight Rail)

Cape Town container terminal's capacity will increase to 2,6 million 20 foot equivalent units (TEUs) by 2011



TRANSNET

EXECUTIVE STATEMENTS

Fred Phaswana
Chairman

INTRODUCTION

This is the third annual letter I am writing as Chairman of this Company, covering a year in which Transnet's transformation and restructuring have reached maturity. And it is an opportunity for me to share our views on the policy, regulatory and economic developments that affect our business, positively and negatively, as well as our assessment of how the Company fares under such circumstances.

It gives me great pleasure indeed to note that, whilst spelling out the challenges facing the business and its managers, these reports have broadly been about tracking the Company's remarkable journey of transformation. Transnet is transformed and is transforming.

Certainly, Transnet's turnaround into a world-class cost-effective freight business continues to be supported by buoyant economic conditions. But that turnaround has, more importantly, also been due to a radical restructuring of our operations and of our Company's finances, made possible by the interconnection of our interdependent operations. Disposals of non-core assets have freed management to focus on those operations that are core as well as helping us achieve a necessary strengthening of our balance sheet. But first, a look at the economic environment in which we are operating:

> "Transnet is, and should remain, a business founded on sound business principles"

ECONOMIC OUTLOOK

South Africa's economy registered yet another strong performance during the past year. Real gross domestic product grew by 5% in 2006, broadly in line with the growth rates of the preceding two years. Average GDP growth of 5% over three successive years was last experienced more than a quarter of a century ago and when the economy was stimulated by a narrow boom in gold prices. It is clear that the economy has now shifted to a new, broadly-based growth trajectory. As the custodian of the country's integrated ports, rail and pipeline networks, Transnet plays a key role in supporting this new economic path.

Robust economic performance over the past three years has paved the way for significant employment gains. To cite but one industry which is an important client of Transnet, employment in motor manufacturing surged to a 10-year high in the third quarter of 2006 as manufacturers increased their production to meet higher local and international demand.

The positive economic performance can be attributed to a number of factors including a favourable international macro-economic environment, a sharp recovery in commodity prices since 2003 and the growth-inducing benefits of a stable domestic macro-economic environment. But there is a flip side. Increasing global competition, rising interest rates, volatility in commodity and oil prices contributed to a challenging operating environment for Transnet and its customers in 2006. And, perhaps most importantly, the global shortage of project management and engineering skills remains a key problem faced by all businesses. South Africa is not alone in facing this problem – our country's industries are having to compete with those of the rest of the world for skills. Skills are increasingly mobile, and managements can ill afford to be complacent over the issue.

Of significant concern to Transnet itself has been the relatively poor performance of exports. Once again they fared badly against imports, registering a growth of 5,5% this past year against the 18,4% recorded for imports. This unbalanced growth has been mainly attributable to the subdued performance of the mining sector in 2006, where production in most sub-sectors declined in the first half of the year and where exports were, in some cases, restricted by infrastructural capacity constraints. This projected growth in import and export volumes is indicative of the capacity additions that Transnet needs to plan for. We at Transnet are responding by ensuring that our own infrastructure will be adequate to deal with our clients' likely requirements. But I must emphasise that expansion of our infrastructure will be carried out responsibly, ensuring that any investment is financially sound and sustainable.

The manufacturing sector continued to display robust growth in 2006, with exports of manufactured goods rising by 4,4% in real terms. Higher economic growth has increased the demand for distribution and logistics services. The transport, storage and communications sector grew at 5,5% in the first half of 2006, slightly below the average annual growth of 6,2% between 2001 and 2005. Sustained growth in demand over an extended period, without concomitant increases in capacity, has resulted in capacity constraints in most parts of the freight logistics system. As an example, container volumes through the ports have grown by an average rate of 11,7% per annum over the past five years – and are projected to continue to grow at similar rates over the medium term – increasing demands on Transnet's infrastructure.

Simply put, Transnet is faced with the challenge of having to put in place, and to finance, major integrated expansions of its operations over the next several years. It can be done in a stable regulatory environment in which management's attention is not deflected from its proper role of managing our operations. We shall not expand in a disorganised fashion – every single project will be subject to rigorous technical and financial criteria. We shall not invest in projects that do not offer appropriate returns. Transnet is, and should remain, a business founded on sound business principles.

While a mild slowdown in global growth is expected over the next two years, South Africa's medium-term prospects are very promising. Growth is forecast to average 5% per annum over the next three years. A more sustainable growth path is expected to emerge, with investment spending and exports supplanting household consumption as the main drivers of economic growth. As this happens, greater demands will be placed, for example, on Transnet's ability to handle goods and transport them from and to the ports. Investments in the energy, telecommunications and transport sectors will remove bottlenecks and lower input costs for South African manufacturers, thereby enhancing their global competitiveness.

Export growth is expected to strengthen from an annual average of 1,1% between 2002 and 2004 to 6,7% over the next three years as commodities and manufactured exports respond to rising global demand and as the competitiveness of local businesses improves. Transnet will play a key role in supporting this growth through complementary investments in port, rail and pipeline capacity and through improvements in service delivery designed to provide domestic firms with access to integrated bulk transport systems. High commodity prices and improved macroeconomic policies continue to support growth in sub-Saharan Africa. The region's GDP expanded by an estimated 5,3% in 2006 (though some countries performed markedly better than others), marking the third consecutive year that regional growth has exceeded 5%. This expansion has been broad-based, with more than a third of the region's countries experiencing growth rates in excess of 5%. The high growth trend is forecast to continue as buoyant domestic demand is expected to spur growth in the non-commodity sectors of most countries. Regional economic integration is a key focus area for Government, and Transnet will examine its potential role in this regard.

FINANCIAL RESULTS

It is satisfying to report another year of excellent results which underscore the correctness of Transnet's strategy and its implementation. Revenue increased by 8,4%, reflecting strong volume growth in all of our operating divisions with the single exception of Freight Rail (refer details in the Group Chief Executive's review on page 34). Operating profit of R11,5 billion before depreciation and amortisation was 11,5% higher than in the preceding year. This was achieved through significant operating efficiency improvements across the board, including and particularly at Freight Rail, as a result of the effective implementation of the business reengineering programme, Vulindlela. The Vulindlela project is focused on the reengineering of our business processes needed to deliver better customer service, productivity and profitability improvements, efficiency, synergies and cost savings.

We are on the right track to becoming a clearly focused customer-oriented business.

The year's profit from continuing operations is R6,3 billion. I am pleased that all of the financial targets set out in the Corporate Plan for the year and in the Shareholder Compact were achieved in aggregate. Accordingly, the key financial ratios of margin, gearing and cash interest cover all showed improvement. Again, we are on the right track to becoming a Company whose finances are appropriate and sustainable.

TRANSFORMATION

The past year has, once again, seen remarkable progress in the implementation of our transformation strategy. To Transnet, transformation means several things. Firstly, it refers to the structural transformation of the business to focus on the necessarily complementary core areas of freight rail, ports and pipelines. Secondly, it refers to service delivery (in Transnet's case, the efficiency improvements and capacity building that will enable it to deliver appropriate cost-effective services to its customers and clients). Thirdly, it refers to the wider socioeconomic transformation projects being pursued by our sole shareholder – the Government of the Republic of South Africa.

The structural transformation of Transnet Ltd into a focused owner and operator of ports, rail and

"It is satisfying to report another year of excellent results which underscore the correctness of Transnet's strategy . . ."

pipelines is in its final stages and will be completed in the new year. Now that we have completed the transfer of SAA, the country's national airline, and Metrorail, the city commuter rail business, to the Departments of Public Enterprises (DPE) and Transport (DoT), respectively, and the sale of a number of other businesses and investments, notably the Victoria & Alfred Waterfront (V&A), the Company will focus in the new year on disposing of the remaining – though less-complex and smaller – non-core businesses.

The executive is to be commended for its achievements during the year. They include:

- Another set of positive financial results based on increasing freight volumes, results that reaffirm the appropriateness of our turnaround strategy and of its benefits for our customers;
- Significant progress in disposing of the non-core portfolio. Importantly, the more complex disposals have been concluded;
- Implementation of the capital investment programme. The capital investment of R11,7 billion was 77% greater than that of the previous year and was the largest investment Transnet's core businesses have ever made in a single year. A significant effort has gone into establishing a delivery capacity within the organisation that can sustain the high level of investment required over the medium term;
- Embedding the operational efficiency enhancement measures across the business. Executive management's determined focus on operations continues to drive our growing operational efficiencies, which are increasingly benefiting our clients and customers especially those of Freight Rail's operations;
- Purposeful roll-out of the human resources strategy, which is starting to bear fruit across the board; and
- Renewed focus on risk management, especially the safety of the Company's assets, of its employees and of its customers' cargo. Performance in all of these areas showed a significant improvement against last year and points to the efficacy of our risk management systems and processes.

DISPOSALS

On the disposals front, it is pleasing to note that the process of exiting from the range of investments that we viewed as non-core was conducted in a manner that was transparent, fair and consultative.

The process allowed us to play midwife to some of the most imaginative and transformative transactions in our country. The fact that none of the transactions have been credibly challenged testifies to the rigour of the processes and is a tribute to management. I also wish to commend management and my Board colleagues for their exemplary conduct during the disposal process, placing the interests of the Company (and, by extension, of the country) ahead of their own personal and commercial consideration. They operated according to the highest standards of corporate governance and ethics. As the disposal strategy reaches finality during the next year, Transnet will be left with a group of complementary core operations that are central to its business.

STRATEGY REFINEMENT

The success in achieving the financial turnaround of the business, underpinning the operational effectiveness, has freed the executive to concentrate on anchoring the remaining pillars of the turnaround, most notably an improvement in operational performance and service delivery. The results of this focus are evident in the operational performance of the business (refer to the Group Chief Executive's review on page 24).

The four-point turnaround strategy will continue to anchor and guide the focus of the organisation over the coming year. Additional emphasis will be placed on developing integrated transport solutions for South Africa's bulk goods and manufacturing sectors and on accelerating the implementation of our human resources strategy.

Coupled with the successful resolution of the pension fund deficit problem – relating to the Transnet Second Defined Benefit Fund (refer to the Group Chief Executive's review on page 37 and the Chief Financial Officer's report on page 45) – the completion of the disposals programme will mark the completion of management's dedicated efforts to restructure the balance sheet. From now on, the focus of our attention will be on strategic management of the balance sheet – that is, ensuring that the balance sheet remains sufficiently strong to support the financing of our growth. This is imperative as we continue to implement the investment programme.

In brief, the pillar in the four-point turnaround strategy relating to the balance sheet will henceforth change to reflect this shift in focus – from restructuring the balance sheet to its strategic management.

To recap, the four-point turnaround strategy will remain broadly the same, save for the pillar of the balance sheet. In future, our corporate strategy of owning and operating world-class ports, freight rail and pipelines will henceforth be based on the following:

- Redirecting and reengineering the business;
- Strategic balance sheet management;
- Improving our adherence to the highest standards of corporate governance and of vigilant risk management; and
- Revitalising our human capital.

The shift towards strategic management of our balance sheet is crucial, especially as we continue to implement the substantial investment programme that will require significantly increased borrowings from the debt capital market. Amongst other things, this balance sheet strength allows us to devote particular attention to strengthening the individual balance sheets of those divisions that need more attention than others. There is strength in unity. As it is, Transnet receives no State aid, even though the State is our only shareholder – a fact that is often poorly understood. Only Metrorail, which was our passenger rail operating division until its transfer to the SARCC in March 2006, received a subsidy to enable fares to be maintained at affordable levels.

The key benefit of having the State as the only shareholder is our ability to take a necessarily long-term view of investment decisions. This chiefly explains our ability to invest in large projects that have a longer payback period than might typically be acceptable in the private-sector.

In other words, as would be the case with a publicly-quoted company, we have to fund our operations from a combination of our own cash resources and the debt capital market. The effectiveness will depend on the strength of our balance sheet – a normal practice in business.

Our shareholder Minister, Alec Erwin, MP, regularly states that we have to operate according to the same disciplines as the private-sector. Because we do not receive any subsidies, we have to rely on the strength of our balance sheet to fund our expansion programmes. Like private corporations, we subject ourselves to the same market and regulatory scrutiny and receive ratings by the same credit rating agencies.

Transnet must generate a rate of return on its investments that ensures the growth and sustainability of the Company.

HUMAN CAPITAL

The Board is heartened by the commitment and focus with which the executive is moving in implementing the human resources strategy needed to sustain the turnaround. This is particularly so in an economic environment in which technical skills are particularly scarce. The investment we make today in our people will benefit not only Transnet but also the rest of the country as the size of the skills pool grows. This is why the link with industry and Government's Joint Initiative on Priority Skills Acquisition (JIPSA) initiative is so vital. Great nations and great organisations are formed by skilled, energised and creative people.

People perform better in a positive work environment. That is why the focus on defining, creating and

"The investment we make today in our people will benefit not only Transnet but also the rest of the country as the size of the skills pool grows."

nurturing a new and appropriate corporate culture at Transnet is both timely and important. As much of the work has been done by the executive in aligning systems, processes, structures, policies and procedures, we would expect that the coming year will see added focus on the corporate culture project of the human resources strategy. This project is part of a wider one that includes agreeing a new and relevant vision and mission for Transnet linked to its transformation and which is designed to culminate in the process of rebranding Transnet to communicate a new corporate brand architecture built around the philosophy of "One Company, One Vision" (also refer to the Group Chief Executive's review on page 22).

The rebranding project was based on research commissioned among various stakeholders on the equity embedded in the old corporate brand and on the most appropriate brand strategy for communicating the revitalised and transformed Transnet.

Last year, I reported that we had adjusted the levels and structure of Transnet's executive remuneration to bring it in line with that of executives serving in companies of comparable size and complexity. The stability in the executive team partly testifies to the efficacy of this process plus the implementation of the new long-term scheme both to incentivise and retain talented and high-performing professionals.

We are pleased that the modernisation of our remuneration system has been achieved without compromising our commitment to our strong ethos of public service.

The year also saw the executive making considerable progress in formulating strategies to retain talent and, importantly, in actively managing the careers of our best performers. The formulation of succession plans for the key leadership layers is an important step in mitigating one of the systemic risks that, unattended to, might challenge the sustainability of the turnaround.

SAFETY FOCUS

Safety has been an issue of concern to us as a Board. During the year, the Board agreed to set up the Risk Committee to provide dedicated focus to this vital area. Prior to the new committee's establishment, risk formed part of the mandate of the Board's Audit Committee. It was felt that, to give due regard to the safety of our operations – our employees, our assets and customers' freight – we needed a new Committee which is now being chaired by Mr Peter Joubert (also refer to the Corporate Governance report on page 52). This committee will provide a mechanism for channelling the Board's support for management's focus on safety.

The Board also welcomes the executive's renewed focus on the issue of safety across the business (refer to the Group Chief Executive's review on page 31). The importance of safety in our operations cannot be over-emphasised. It is everyone's business. Employees, management, the Board and the unions have a vested interest in the improvement of safety.

ECONOMIC REGULATION

At the start of 2007, the National Ports Act came into force with serious implications for our business. For some time, we have been engaging with the shareholder ministry over the problematic aspects of the Act. Given the urgency, we felt it appropriate to set up an ad hoc committee of the Board to structure our engagement with the shareholder on the worrying issues that have arisen from the Act. I lead this committee, which also includes our Group Chief Executive, and I cannot overstate Transnet's concern that a successful outcome of this engagement be achieved.

It is against this background that we feel it proper to engage expeditiously with the shareholder, the Department of Public Enterprises, as well as with the Department of Transport, which is the policy department. While we are concerned over the implications of the Act, we remain optimistic that a sense of urgency will characterise our engagement and that a sensible solution, that upholds the spirit of the Act, will be found so that

Transnet can confidently proceed with its investment plans.

Similarly, we are concerned at the implications of the refusal by the National Energy Regulator of South Africa (NERSA), to approve our application for a 5,6% pipeline tariff increase for Pipelines. This matter is being addressed through appropriate forums with the relevant authorities.

Transnet believes and supports the role played by independent regulators. Independent regulators – adjudicating over the safety and the economic spheres of enterprises – have an important role in the smooth functioning of a progressive economy such as South Africa's.

Accordingly, we welcome the establishment – and, in certain instances, the strengthening – of the institutional framework pertaining to our business. The births of NERSA as well as that of the Independent Ports Regulator (as envisaged in the National Ports Act) are welcome additions to our regulatory environment. We shall collaborate with both regulators to ensure that Transnet continues to serve its clients and the country as a whole efficiently.

Following the end of the year, the Government announced the establishment of the Independent Ports Regulator and named its members led by its chair, Ms Gloria Serobe.

We have already strengthened our compliance capacity in most areas of our business to facilitate this interface; and we look forward to building a healthy working relationship with both regulators, based on integrity and mutual respect (also refer to the Group Chief Executive's review on page 37).

GOVERNANCE

As you read this report, this Board will have been in office for almost three years. For myself, and I am sure I speak for all of my Board colleagues, they have been three stimulating, demanding and challenging years. As a Board, we have sought to ensure that our task remains one of guidance, support, oversight and direction for the executive, which has to have enough space to execute strategy on a daily basis. Similarly, we have constantly to strike the balance between oversight and strategic intervention. It pleases me that this Board has largely succeeded in this task throughout its life, even during the crisis it inherited on its formation. Members of the Board meet with the rest of the executive twice each year to review strategy and business plans as well as to contribute actively to the formulation of the Corporate Plan (business plan) ahead of its submission to the shareholder minister in February. These highly interactive sessions have proved to be an invaluable tool in the annual business planning process.

The balance between guidance and intervention is also reflected in the number and composition of the Board's committees which remained the same for most of the year and, indeed, during the life of this Board. Apart from the departure more than a year ago of one of its founding members – Ms Moira Moses (to join the executive at Transnet) – the composition of the Board has also stayed the same. On Ms Moses's departure we further reinforced the Board's skills by inviting Ms Nunu Ntshingila and Dr Norman Haste OBE, to join our Board as independent non-executive Directors.

Local rules on Board direction are silent on the tenure of Boards. However, internationally, two terms are deemed the acceptable norm. Anything longer than that tends to result in familiarity setting in, which risks ending in denying good companies the benefits of new ideas that can be introduced by fresh blood.

We have to thank the current members of the Board for their commitment, especially during the initial critical months and years at Transnet. The Company is fortunate that it still enjoys the benefit of their skills, time, wisdom, diligence and dedication.

LOOKING AHEAD

The conclusion of the Shareholder Compact – setting out key performance indicators on financial efficiency and income as well as, developmental and infrastructure investment targets – made our work as a Company far easier than might otherwise have been the case. Together with the new Articles of Association – which were also approved during the year – such a Compact is an important document

"I am confident that the next year will be another year of improved performance."

in the life of any world-class company.

The past year's progress in the implementation of strategy is also a reflection of the improving health of relations between management and the labour unions. The investment in this relationship epitomised by the Strategic Leadership Forum, which is chaired by our Group Chief Executive, is beginning to be felt in the form of the improved quality of the relationship between these two roleplayers.

PROSPECTS

Given Transnet's focused strategy and the commitment of the executive and staff, I am confident that the next year will be another year of improved performance. The three-year Corporate Plan (which is updated and approved each February) gives clarity on the direction. The range of agreed key performance measures in each significant area of activity enables progress to be measured timeously.

APPRECIATION

A collaborative working relationship between all our stakeholders – our employees, our labour unions, Government and executive management – is required if the transformation of Transnet into a world-class business is to continue succeeding. To this end, the Board wishes to express its appreciation to all our employees and management for the commitment, loyalty and the tenacity they have demonstrated.

As a Board, we would like to commend Group Chief Executive, Maria Ramos, and her Executive Committee for their commitment, diligence, hard work and energy in doing what is best for the Company and for its contribution to our country. We are heartened that Ms Ramos's outstanding work is being noticed by others, as seen in her successive appearance on *Fortune* magazine's list of the world's most powerful businesswomen – last year, she climbed several places to rank 16th.

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 continued support that Minister Erwin, MP, is showing for our transformation programme. His leadership – exercised in various forums, including the Chairmen's and CEOs' Forum – is indispensable to our work.

Our thanks go to Mr Yunus Carrim, MP, the Chairman of the Parliamentary Portfolio Committee on Public Enterprises, and to his colleagues on that committee for their continued encouragement and interest in our work.

In closing, I would like to thank Transnet's customers and suppliers for their continued confidence, support and understanding during our transformation process. It is our goal to improve our business and service offerings so that we can deliver steadily improving and cost-effective freight services.

Fred Phaswana

Chairman
21 June 2007

INTRODUCTION

Before reviewing our performance for the year ended 31 March 2007, let me introduce you to the new Transnet corporate identity, its rationale and our new vision and mission.

Rebranding Transnet

The current year marks the end of the structural transformation of Transnet from a diversified group into a focused and integrated freight transport company as envisioned in our four-point turnaround strategy. Consequently, to signal the re-alignment of the business as Transnet gears itself for sustained growth in its new form, we have rebranded from a multi-brand organisation to a single, overarching "monolithic" Transnet brand to align our corporate identity with our business strategy. The rebranding underscores the fact that Transnet is now an integrated freight transport company with five operating divisions that necessarily complement each other.

But first, some background

The name and the Company "Transnet" came into existence in 1990 when the old South African Transport Services (SATS) was corporatised and renamed Transnet Ltd. Although the name "Transnet" has existed for only 17 years, the organisation itself has existed for

more than a century in one form or another, under different names, with different ownership and reporting arrangements and with different organisational structures.

Before 1990, the organisation operated largely as a Government department with no commercial culture to speak of. As it evolved over the years, the organisation assumed different names, including South African Transport Services (SATS) and South African Railways and Harbours (SAR&H). Due to the diverse nature of its operations, it could safely be said that SATS was responsible for moving South Africa, its people and its freight.

In August 2004, a new Board (still in office today) took office and the new management team tabled a turnaround strategy, proposing a fundamental restructuring. This would see Transnet's structure and focus change over the next three years from a diversified group into a focused freight transport and logistics business. This transformation strategy, known today as the four-point turnaround strategy, was adopted by the Board late in 2004 and endorsed by the shareholder in 2005 when the Corporate Plan was approved.

The focused implementation of this strategy, which enjoys the support

Maria Ramos
Group Chief Executive

of all our stakeholders, has seen all non-core assets being sold to the private sector or unbundled to the State in the quest to build a focused and integrated freight transport and logistics business.

The new Transnet, as envisaged by the four-point turnaround strategy, is essentially driven by five operating divisions that complement each other. These are supported by a number of Company-wide specialist functions such as Transnet Projects which underpin the turnaround.

The conclusion of the structural transformation prompted us to rethink the Transnet brand, its relationship with the sub-brands and the appropriate architecture to give content to the philosophy of "One Company, One Vision".

To guide and inform our decisions, independent research was commissioned to canvass the views of various stakeholders, including our customers and employees. This emphatically concluded that:

- The name Transnet should be retained and
- **Transnet should refresh its brand image to reflect:**
  - Customer focus;
  - Reliability and flexibility;
  - Cost-efficiency and competitiveness;
  - Transparency;
  - Improved communication and divisional alignment; and
  - An integrated solution of bulk freight transportation.

Therefore, the rejuvenation of the brand is designed to optimise the equity embedded in the Transnet brand so as to communicate with brevity the revitalised Company, its new corporate structure, its people and our emerging service culture. In addition, it will provide an appropriate architecture to govern the relationship between the "mother brand" and the "sub-brands". Refreshing the brand also provides an ideal opportunity to communicate the repositioned Transnet – a business-to-business player – and will enable the entities we no longer own to be positioned within the strategies of new owners.

Following the monolithic brand route, recommended by the research we have done away with the old semi-autonomous and fragmented structure and replaced it with a single, integrated one. So, the new Transnet, which we present to you, is made up of:

- Transnet Freight Rail (formerly Spoornet);
- Transnet Rail Engineering (formerly Transwerk);
- Transnet National Ports Authority (formerly the NPA);
- Transnet Port Terminals (formerly SAPO); and
- Transnet Pipelines (formerly Petronet).

The new singular structure and corporate identity is an optimal platform to reinforce the "One Company, One Vision" drive, and it mirrors our new corporate culture.

Inevitably, with a new focus, we had to rethink our vision and mission.

Transnet's new vision and mission

Transnet is a focused freight transport company delivering integrated, efficient, safe, reliable and cost-effective services to promote economic growth in South Africa.

This is being achieved through increasing our market share, improving productivity and profitability and by providing appropriate capacity to our customers ahead of demand.

New values

In line with our new vision and mission as well as the new brand, we have refined the values that underpin our business and our brand. We trust that in your dealings with us you will experience this unity of purpose and be convinced that we live our new values and are loyal to our brand.

In brief, we would like our customers:

- To prefer us because we are reliable, trustworthy, responsive and safe; and because
- Our employees think and are committed, safety-conscious, accountable, ethical, disciplined, and results-oriented.

New tag line

We have hitherto been using "delivering on our commitments" as a tag-line, accompanying the corporate identity. This remains

"We are reliable, trustworthy, responsive and safe."

relevant. But we wanted to emphasise our commitment to *you*, our stakeholders – our customers, employees, shareholder, the communities in which we operate and our lenders. Accordingly, our new tag line is "delivering on our commitment *to you*".

Conclusion on the rebranding

The rebranding signals the change in the direction and focus of the business, it communicates the progress in its transformation and it explains the essence of the new Transnet. It is more than a name change for our operating divisions.

STRATEGY IMPLEMENTATION AND PERFORMANCE REVIEW

Introduction

At the start of this transformation journey, we made it clear that it was going to be a three- to five-year journey. We are entering the third year with a Company that is stable and that has started investing in creating appropriate infrastructure capacity to ensure sustainable growth.

Perhaps the best measure of the progress we have made as we review the third year of the journey of Transnet is to retrace our steps. The table below reflects the substantial progress Transnet has made when compared to 2004 in all the key measures of performance and the Company's financial strength.

The results so far provide telling evidence that:

- The financial turnaround is well under way and succeeding;
- The operational turnaround is progressing well and is sustainable;
- The five-year capital investment programme is on course and we have the capability to roll it out;
- The non-core portfolio has largely been disposed of;
- A solid platform for growth is in place; and
- We have a committed team to sustain the strategy into the future

Our financial and operating results show that this is the second consecutive year in which most of our operating divisions delivered revenue increases based on growth in volumes. This is in line with our strategy as well as with our mandate to enable economic growth through helping make the economy competitive by optimising South Africa's freight transport and logistics system.

Progress since 2004

Measures	Actual 2004	**Target (Shareholder Compact) 2007**	**Actual 2007**	Improvement: Actual vs 2004 (%)	Improvement: Actual vs target (%)
Operating profit (R billion)	4,8	**7,0**	**8,5**	77	21
EBITDA (%)	17,0	**35,0**	**41**	139	16
Cash interest cover (times)	3,5	**5,4**	**5,4**	54	–
Cash flow return on investment (CFROI) (%)	4,0	**5,8**	**6,8**	70	17
Gearing (%)	83,0	**48,0**	**39,0**	53	19
Capital expenditure (R billion)	7,8	**11,8**	**11,7**	50	Achieved 99 (target > 90)
Shareholders' equity (R billion)	9,9	**–**	**37,4**	278	–

Financials

It is really heartening to report that the relentless application of our approved strategy is reflected in our financial statements for the year. All operating divisions, with the exception of Freight Rail, grew volumes strongly, enabling revenues to increase 8% to R28,2 billion. Transnet kept the increase in operating costs, at 6%, well below that of revenue, enabling the EBITDA (earnings before interest, taxation, depreciation and amortisation) margin to increase to 40,7% (2006: 39,6%). This was due to sustained productivity improvements and cost-control. In fact, adjusting for once-off provisions for the ex-gratia contribution to the TSDBF, TPF and for Freight Rail restructuring, the cost increase would have been only 3,8%.

Depreciation, however, showed a substantial increase of 42% to R3 billion as a result of the combined impact of depreciation of new capital plus that of Freight Rail's capitalised major maintenance. This trend is expected to continue. Therefore, the challenge is to ensure that capital expenditure drives planned volume increases and productivity improvements.

There were many operational challenges during the year, but the business showed extreme resilience in overcoming them. A few are worth noting here: a ship loader structure collapsed in Saldanha; derailments (Basklook-Cordier/Duiwelskloof, Camden-Ermelo, Dassieshoogte and Ensel-Klipdrift); rough seas experienced in March 2007 caused most ports to close for more than five days; and adverse weather conditions saw the coal mines failing to produce and supply the required volumes.

However, the ongoing transformation to make the business customer-oriented ensured that Transnet was able to meet its customers' requirements despite these challenges.

Given the scale of our five-year capital expenditure programme, we have paid special attention to cash flow. Fortunately, this focus paid off: the 20% increase in cash flows from operations to R13,5 billion reflects the emphasis we placed on cash generation.

Transnet's balance sheet continues to strengthen as reflected by the 27% growth of the capital and reserves of the Company and the decrease in gearing to 39%, a 15% improvement. This strength is important as Transnet will be accessing the debt capital markets during 2007 and into the future as it needs to secure cost-effective funding of relatively long tenors to assist in the financing of the capital expenditure programme.

Operating context

It is hard to underestimate the importance of transport to a country's economic and social development. The efficient and effective movement of goods and people is one of the principal economic inputs and plays a significant role in the global competitiveness of that country's economy.

As the custodian of ports, rail and pipelines in South Africa, our strategy is to ensure that we operate these assets according to world-class standards, thereby enhancing the growth potential of our economy.

It is this that contextualises the framework in which Transnet operates and this is captured in our turnaround strategy which drives the transformation of the organisation from a diversified group of loosely-connected logistics businesses to a focused port, rail and pipeline business providing world-class, cost-effective, appropriate and integrated bulk freight transport solutions to the South African economy. This gives local firms an important competitive advantage in the global marketplace.

"In the past year we completed the restructuring of the balance sheet"

STRATEGY REVIEW

STRATEGIC MANAGEMENT OF THE BALANCE SHEET

In the past year, we completed the restructuring of the balance sheet. The greatest progress took place in two areas – in the disposal of the non-core assets and in the resolution of the pension fund deficit problem.

We have now substantially strengthened the position of the Transnet Second Defined Benefit Fund (TSDBF). In the past year, we reported the sale of the entire holding of 75 million shares in MTN, the mobile phone group, belonging to the TSDBF. These shares were held in trust – through the M-Cell Trust – for the beneficial interest of the TSDBF members. They, together with a further minority stake belonging to Transnet Ltd, were sold in the market through a book-building exercise.

During the year, Transnet and its three pension funds, the TSDBF, Transnet Pension Fund (TPF) and Transnet Retirement Fund (TRF), also agreed to sell their interests in the Victoria & Alfred Waterfront to the London and Regional Consortium for R7,04 billion. The transaction was probably both the largest real estate deal and property empowerment deal in our country. It brought together international investors (Dubai World's Isthitmar and London & Regional) and local and black investors (who now hold more than 25% of the shares in the new company). It also saw black employees being allocated 2% equity in the new company.

As the largest single shareholder in V&A, the TSDBF (which held 44%) was the main beneficiary of the transaction. The disposal price was significantly above the carrying value in the respective funds' balance sheets.

These two transactions, together with the performance of the equities market and interest rates movements, bolstered the TSDBF's performance, taking it into an actuarial surplus position of R1,9 billion. An independent actuarial valuation has confirmed this surplus (refer to the Chief Financial Officer's report on page 45).

The changes to the pension fund rules that are dealt with later in this report will bring our funds more in line with global best practice.

Transnet played a vital strategic leadership role in achieving the TSDBF turnaround.

Of the vast and varied portfolio of our non-core assets, the transfer of SAA, the national airline, was by far the largest and most complex. Whilst risk and reward transferred to the DPE, the new owner, on

Strategic intent → Focused freight transport company → Delivering efficient and competitive services → Enabling economic growth

Four-point turnaround strategy	Redirecting and reengineering the business	Strategic balance sheet management	Ensure corporate governance and risk management	Develop human capital
	• Improving efficiencies and effectiveness of the core operating divisions • Realising port-rail synergies • Improving customer focus • Infrastructure and maintenance programme	• Sell remaining non-core portfolio and achieve a better focus on core operating divisions • Appropriate return on invested capital • Post-retirement funding • Optimise cash flow management • Cost of capital • Strategic asset and liability management • Cost-effective funding	• Ensure that the highest standards of corporate governance are adhered to • Ensure that the Company's risk management, especially the safety of all its operations, is improved	• Revitalising human resources by transforming culture and behaviour of staff • Be a preferred and sustainable employer • Improve talent management and leadership development, transformation management as well as performance and reward management

31 March 2006, there were several suspensive conditions that had to be fulfilled by the end of the year. They included the enactment of the law setting up SAA as an independent company, International Air Services Council approval, Air Services Licensing Council approval, third-party contractor approval and the listing of SAA as a Schedule 2 public entity in terms of the Public Finance Management Act (PFMA).

We are pleased that all these conditions were fulfilled within the agreed time frames, and the disposal of SAA was recorded in our financial statements on 31 March 2007. Whilst SAA was sold for R2 billion, no cash flowed as the settlement was by means of a share buy-back of Transnet's shares. Consequently, there was a R2 billion reduction of Transnet's share capital at 31 March 2007. In summary, since 2004 Transnet has injected, out of its own funds, R8,4 billion in cash which has now been written off.

The disposals included all or some of the following key features:

- The participation of black investors;
- Setting up employee share ownership;
- Due process was followed at all times;
- A competitive public bidding process was followed except in instances where there were explicit pre-emptive ownership arrangements or the disposal/ sale was to the State;
- All were sold as going concerns and at fair value;
- There were no job losses as a result of the disposals (in fact, management secured job guarantees from the buyers);
- Conditions of service of the transferring employees were largely unchanged;
- Our employees (especially management) were prohibited from buying any of the businesses being sold in keeping with our strict conflict of interests policy; and
- The integrity of the process was never in doubt (none of the disposals have been subject of a credible litigation).

During the year, the following entities were successfully sold:

Entity disposed	Buyer	Price
Transnet Pension Fund Administrators (100% – administration and investment services)	Metropolitan Life (including Kagiso Trust Investments) and Fifth Quadrant respectively	R20 million and R3 million, respectively
Equity Aviation Services (Pty) Ltd (49%)	Equity Aviation Services (Pty) Ltd (plus an employee share scheme)	R70 million
Transtel Telecom FSN Metro assets	Neotel (Pty) Ltd (formerly the Second Network Operator)	R251 million (funded by issue of equity of 15% in Neotel (Pty) Ltd via Transpoint Properties (Pty) Ltd)
VAE Perway (Pty) Ltd (35%)	VAE GmbH	R30 million
V&A Waterfront Holdings (Pty) Ltd (26%)	London & Regional Consortium	R1,8 billion
South African Airways (Pty) Ltd (100%)	Department of Public Enterprises	R2 billion (no cash flow – transaction effected by a share buyback)

"The completion of the disposals programme has released resources – cash, time, management and personnel – to concentrate on our five core operating divisions."

The disposals enabled Transnet to achieve its goal of concentrating its energies on owning and operating rail-freight, ports and pipelines, while securing knowledgeable and visionary buyers for the non-core businesses. This will allow employees to develop their careers under focused and growth-oriented ownership.

In the first half of the new year, we shall accelerate the disposals programme by selling or transferring the remaining non-core entities. The remaining programme includes concluding talks with the preferred bidder on the sale of freightdynamics, our road haulier, and restructuring the fuel and container divisions of freightdynamics.

Subsequent to the year-end, we concluded an agreement with First National Bank, providing for the sale at fair value of Transnet's housing lending book to FNB for about R1,4 billion. In terms of a service level agreement, FNB will continue to provide housing and other loans to Transnet employees. Not only does this release cash, but it will provide employees with a better and expanded service.

The process of selling arivia.kom (in which we own 42% of the issued shares) to the private sector and outsourcing our IT services, is at an advanced stage. The process to sell The Blue Train to the private sector has recently been launched.

Following the transfer of Metrorail to the South African Rail Commuter Corporation (SARCC), the utility belonging to the Department of Transport, plans are in place for the transfer of Shosholoza Meyl, the long-distance passenger rail service, to the SARCC during the course of the year.

South African Express Airways (Pty) Ltd, our wholly-owned airline subsidiary, is in the process of being sold to the DPE, marking our complete exit from civil aviation.

In my last review, I referred to our plans to:

- Dispose of non-core properties (including residential, commercial and vacant land);
- Sell Subco (holder of the preference share), a special-purpose vehicle used to fund the purchase of a minority shareholding in MTN by its management and black employees; and,
- Agree the future of Autopax, our passenger bus subsidiary.

Negotiations are at an advanced stage for the sale of property to Servcon, a company wholly owned by the Department of Housing. A strategy is in place to sell those remaining properties we have deemed non-core to our corporate strategy and PFMA approval has been received.

On 21 June 2007, Transnet accepted an offer from Newshelf 664 (Pty) Ltd for the redemption of the "C" class preference share held by Transnet in Newshelf 664 (Pty) Ltd. The offer amounted to R5,8 billion. The transaction is subject to certain suspensive conditions.

The delay in moving Autopax out of our stable was caused by the need to explore various options proposed by different stakeholders, including our labour unions. The DPE has now furnished us with the mandate to proceed with the disposal of Autopax.

The completion of the disposals programme has released resources – cash, time, management and personnel – to concentrate on our five core operating divisions.

As we accelerate the roll-out of our investment programme, finding an appropriate mix of funding solutions will become a top priority. This explains why the focus on strategic management of the balance sheet has assumed such significance.

More precisely, this will entail reducing the weighted average cost of capital by reducing the weighted average cost of debt; improving the liquidity position; implementing a robust cash-management system; and diversifying sources of funding.

REDIRECTING AND REENGINEERING THE BUSINESS

This pillar of our strategy covers a range of programmes. I wish to focus on the business reengineering, capital investment; and other related initiatives.

Vulindlela

Readers of this report will now be familiar with *Vulindlela* (a Zulu word meaning "opening the way"). This is the name of our reengineering effort.

Now into its second year, this programme is designed to:

- Optimise the performance of Freight Rail's coal, iron ore and general freight businesses;
- Lift productivity and profitability levels;
- Re-orient the business towards its customers;
- Address safety problems;
- Cultivate and embed a culture of planned maintenance;
- Improve operational efficiencies and synergies between our various operating divisions;
- Optimise the performance of the port system;
- Increase our market share; and
- Contain costs and simplify systems.

One of the major achievements of the programme during the year was to roll it out across all the operating divisions. Initially, the focus had been on our rail freight division.

In the year, priority programmes contributed over R2 billion in sustainable savings, bringing the cumulative savings to almost R2,5 billion since Vulindlela's inception in August 2005.

The Vulindlela initiative lies at the heart of Transnet's turnaround strategy and is the core initiative to redirect and reengineer the business. Vulindlela is also making a strong contribution to Transnet's other key strategic pillar, namely HR.

Highlights from the rail freight programmes:

- The Commercial redesign programme, which focuses on key customer account management, has achieved greater stability in priority freight flows, consistently meeting customer demands. Consequently, delivered volume tempo for the freight flows has exceeded budgeted volume by over three million tons across these flows;
- Total general freight business flow (an area with massive growth potential, but which has historically been neglected) has now been stabilised with substantial improvements forecast for the future. Operational improvements on the KZN corridor programme have increased the number of trains per week by over 25%. Lessons learned on the KZN corridor are now being applied at the Cape corridor as part of the overall National Operating Centre (NOC) programme;
- Since October 2006, the Iron Ore Line programme has consistently set new weekly volume records, with an all-time record of 705 kt/week achieved early in December 2006. Since the beginning of calendar year 2007, rail capacity has exceeded mine supply;
- The Coal Line has sustained volume improvements of 1,4 mt/week, translating into an annual tempo of 72 million tons for the third quarter of the year. Volumes are now constrained by the mines' ability to supply coal. This capacity increase has been accompanied by a significantly improved delivery record – net cancellations have remained below 3%, almost all arising from delivery postponements by customers. Consequently, trains are being diverted to other areas where they are needed; and
- The Safety programme has delivered savings of R200 million on the previous year's figure through a significant reduction in major incidents. The overall programme is, however, performing below expectations, which remains an area of major concern and focus for us (also refer to the Chairman's Statement on page 17 and the Risk Management report on page 56).

"During the year Vulindlela contributed over R2 billion in sustainable savings."

Highlights from the other programmes:

- The Rolling Stock Maintenance programme has consistently sustained its productivity improvements in key focus areas and the roll-out of this ambitious programme's objectives is well under way at all of our wagon and locomotive depots. During the year, we also completed the integration of Freight Rail's maintenance into Rail Engineering, a task that involved moving more than 6 000 employees;
- The Ports Optimisation programme has consistently achieved new monthly handling records, with 186 000 TEUs for November 2006 (significantly above the November 2005 record of 158 000 TEUs). Improved alignment between Port Terminals and National Ports Authority has played a significant role in this achievement and is central to making our ports internationally competitive; and
- The Procurement programme has produced gains of more than R500 million this year. The programme continues to concentrate on improving operational alignment, with the focus on managing drivers of demand, volume forecasts and lengthy technical evaluations.

Thus far, Transnet has benefited from Vulindlela not only through operational and financial improvements, but also through the mobilisation of people at all levels of the organisation.

Looking forward to the coming year, Vulindlela has plans to build upon Transnet's substantially improved financial and operational performance, and to address issues that might affect the speed at which we are achieving our targets.

Capital investment programme

The business logistics sector has been characterised by rapid innovation over several decades, driven primarily by advances in transport and in information and communication technologies that enable ever-deepening integration and collaboration between supply chain partners. The goal of these innovations is to improve the speed, reliability, flexibility and responsiveness of supply chains while at the same time reducing overall supply chain costs.

In this regard the logistics sector has experienced considerable success. The first Annual State of Logistics Survey (2004) noted that over the past five decades, developed economies had realised a reduction in the cost of transport as a percentage of GDP of approximately 5% per decade and almost three times as much in inventory carrying costs.

Behind all this innovation, however, still lies a physical chain that determines what can be moved, where and how. This physical chain is therefore a key cost component, not only for companies in terms of their bottom-line but also for countries and regions which want to compete successfully for the limited and fickle supply of investment and development capital. As the custodian of port, pipeline and rail infrastructure in South Africa, Transnet is a central enabler in South Africa's freight logistics and, therefore, a critical factor in South Africa's growth agenda.

Transnet adopted a corridor approach as the framework for infrastructure investment. The corridor approach provides support for promoting concentration and density within the freight system and ensures alignment between rail and port planning and investment. Focusing investment around high density corridors creates a high density core for the bulk freight transport system which will contribute significantly to higher service quality at lower cost.

More than a year ago, Transnet Projects was set up to implement major capital investment projects – that is, those investments worth more than R300 million. The rationale for setting up a dedicated unit was to free divisional executives to concentrate on day-to-day operations yet ensure that the major projects are rolled out on time, thereby creating capacity for future growth. At the time, there were seven major construction projects. The unit, with some 2 000 employees (in Richards Bay, Durban, Port Elizabeth, Cape Town, Saldanha and Johannesburg), incorporates Protekon, our former project management subsidiary. Over time, Transnet Projects's scope has been widened to include smaller projects, special projects (these currently include work on the ship loader in Saldanha and on the manganese facility in Port Elizabeth) as well as on repairs, maintenance and emergency issues.

The successes of the programme have ensured that:

- We have hastened the pace of implementing the investment programme;
- Project conceptualisation, planning and design are of the highest quality;
- There is better co-ordination of the planning of the major capital projects in the Company;
- There is greater focus on environmental issues throughout the project life cycle;
- There is adequate transparency in the projects; and,
- Technological skills and knowledge are being transferred to local and young professionals

On an annual basis, the business requirements are revisited and the investment plan is updated to ensure that we keep track of changes in the economy as well as customer requirements. Over the next five years, the Company will be investing R78,9 billion in the replacement of assets and expansion of activities in all the core divisions. It should be noted that all new projects are subject to the successful completion of rigorous feasibility studies which require returns which exceed our cost of capital and of obtaining necessary environmental authorisations. The areas of investment and the major projects are as follows:

Rail-related projects (R38,9 billion)
The major capital investment projects in the coal and iron ore lines are to ensure sustainability and to increase capacity. New locomotives (110 dual voltage) have also been included in the plan for the coal line as well as the proposed acquisition of 212 locomotives for the general freight business of Freight Rail. This will improve efficiencies and service levels, specifically in the general freight business.

Port-related projects (R28 billion)
To increase capacity at the ports, several new projects are being undertaken. They include the widening and deepening of the port entrance in Durban, the construction of a new container terminal at Ngqura, the expansion of the Cape Town container terminal as well as new equipment to handle the projected increase in volumes at all the major ports. Several projects have also been included to replace existing assets in the ports which includes equipment and facilities at Port Elizabeth, Richards Bay, Durban and Saldanha.

Pipelines-related projects (R10 billion)
The major project is the new multi-product pipeline (NMPP) from Durban to Gauteng. This project will create the capacity required from 2010 onwards. Due to the substantial investment and the long payback period of pipeline assets, the affordability of the project is dependent on a suitable tariff structure. Other projects have also been started to improve the efficiencies of the existing pipelines to ensure that sufficient capacity is available until the completion of the NMPP project.

TBI (Transnet Business Intelligence)
The TBI programme supports Transnet's executive decisions through providing accurate, relevant, consistent and timely information, and also in enhancing the control environment in which we operate. TBI is therefore aimed at:

- Aiding in the improvement of corporate performance management;
- Improving the processes and systems that enable information management; and
- Assisting Transnet to become a world-class bulk freight organisation through effective use of technology, world-class systems and processes.

A major TBI project for the year is the roll-out of the key performance indicator (KPI) process throughout the business. This project has identified the critical KPIs across the business and will measure and report these against international benchmarks on an automated basis. This will facilitate substantial productivity and performance improvements throughout the Company.

"Over the next five years the Company will be investing R78,9 billion in expansion and replacement of assets."

RISK MANAGEMENT AND CORPORATE GOVERNANCE

Our approach to risk management and corporate governance is straightforward. We ensure vigilance in dealing with risk and that all our officers adhere to the highest standards of corporate ethics at all times. Ours is a zero-tolerance approach.

In previous years we adopted and implemented an extensive enterprise-wide risk management (ERM) framework that included the establishment of risk structures to reinforce the framework. Our focus during the year was on formulating, adopting and implementing Company-wide safety, health, environmental and quality (SHEQ) risk-management policies together with compliance.

Transnet's SHEQ risk management standards ensure a uniform approach throughout the Company that is in line with world-class standards. This will be measured against the ERM Framework and best practice with the ultimate objective of reducing incidents and of minimising repeat mistakes.

While considerable progress has been made in improving safety in all our operations, we are saddened to report the deaths of 26 employees during the year. Our hearts go out to their families and loved ones. One death is too many.

We have reviewed our safety procedures and have strengthened our capacity in problematic areas. Our safety strategy's objective is two-fold: first, to increase accountability and to hold accountable those responsible for lapses in judgement; and second, to openly recognise the positive contribution being made by those responsible for safety improvements.

New measures include:

- Assessments of the implementation of corrective actions or plans that have been recommended by the BOI;
- Continuous provision of assurance on the effectiveness of the safety and risk controls by the compliance and Internal Audit units; and
- Promoting incident-recall sessions and information-sharing meetings to inculcate a culture of accountability for safety in all spheres of the business.

We are rolling out an extensive safety awareness and training campaign. The training covers management and supervisory level. Also, we increased the number of permanent safety and risk officials in the rail regions.

We welcome the strategic support and guidance provided by the Board through its newly established Risk Committee (refer to the Chairman's Review on page 17). During the year, we created a new position in the Group Executive Committee for the Chief Risk Officer. The post highlights the significance we attach to prudent risk management, especially the safety of our people, assets and customers' cargo. It is also designed to direct Company-wide safety initiatives and give safety the requisite attention by our Executive Committee.

We have appointed a leading international consultancy to assist us in this area especially in our rail-freight operations. This is a critical factor in the continuing success of our business.

Our internal control environment is continuing to improve, supported by the decision two years ago to outsource our internal audit function. Ernst & Young, our internal auditors, are playing a critical role in assisting management to improve controls and in investigations of allegations of fraud, including those from tip-offs received through our toll-free, independently-managed anti-fraud line.

The campaign against fraud cannot be won by strict enforcement of our anti-corruption policies alone. It requires a partnership approach. A corporate neighbourhood watch that includes our suppliers, customers and trade unions acting in concert against wrongdoing is needed. We encourage our suppliers to uphold integrity at all times and to report any misconduct by any of our employees.

The role and composition of the Group Executive Committee remained largely the same during the year. Given the significance of human capital in sustaining the turnaround, we agreed to set up an HR sub-committee to deal with human resources matters prior to their tabling in the wider monthly meeting of the Executive Committee.

In the final quarter of the year, I reorganised the executive team to ensure that we could continue to build on the successes of the implementation of the strategy to transform Transnet into a world-class freight transport business. The changes were informed by the need to maintain our focus on operations and on implementing the capital investment programme efficiently and effectively; the need to build quality relationships with our key clients and customers and with other stakeholders, especially regulators; the need to pay even greater attention to safety and risk management; and the necessity to hasten the implementation of our strategy to revitalise our human resources.

In consultation with the Board, I made the following changes:

- Mr Pradeep Maharaj, the Group Executive: Strategy and Transformation, assumed a newly-created position of Group Executive: Human Resources;
- Mr Vuyo Kahla, the Group Executive: Legal and Risk, moved with his legal portfolio to the Group Chief Executive's Office, taking on the new position of Group Executive: Office of the Chief Executive to assist me in the day-to-day running of the Office and in stakeholder relations, especially with key customers and regulators;
- Ms Moira Moses, the GM: Business Reengineering, became Group Executive: Transnet Projects, a newly created post that she assumed in March 2007; and
- A new post of Chief Risk Officer was created. Ms Virginia Dunjwa, the GM: Group Risk Management, was appointed on 1 June 2007 to the post.

To further drive cohesion, which is important for providing integrated services to our clients, we integrated the next level of executive leadership – that is, the Divisional Executive Committees. For example, Mr Siyabonga Gama, the CE of Freight Rail, serves on the Executive Committee of Rail Engineering and Mr Richard Vallihu, his counterpart in Rail Engineering, sits on Freight Rail's Executive. Below this level of leadership, more cross-functional and divisional teams have been set up to ensure that Transnet is more customer-oriented and increasingly offering more synergistic services to its customers.

HUMAN CAPITAL DEVELOPMENT

This is the first full year in which we implemented our human capital development strategy since its adoption by our Board. The strategy, implemented by the Group Executive Committee, is vital to sustaining our turnaround strategy in the years ahead. To recap, it focuses on the following:

- Skills demand planning;
- Recruitment and retention;
- Capacity building and skills development;
- Performance management;
- Talent management; and
- Culture.

Following the disposal of non-core assets, the Company now has 48 578 permanent employees and 8 543 employees on fixed-term contracts.

Although the year kicked off with industrial action over Transnet's proposed restructuring and the disposal of its non-core assets (also refer to last year's Annual Report on www.transnet.net), the overall employee relations climate subsequently improved and is now significantly more engaging, positive and productive. The Company currently enjoys a sound relationship with its recognised trade unions.

During the year, Transnet made significant strides in the effective management of its human resources. Achievements include:

- The management of talent through the mapping of future skills demand, priority technical

"Transnet is striving towards a performance-driven culture."

skills planning and acquisition, leadership development as well as the priority skills required for the Vulindlela reengineering project;
- Laying the foundation for sound performance and reward principles and practices across the business;
- Establishment of sound employee relations across the organisation;
- Concluding an agreement with the unions on the principles that guide the implementation of the disposal of Transnet's non-core assets and facilitating the employee aspects of all the disposals;
- Increasing the efficiency of the HR function through the enablement of HR systems; and
- Focusing on change and transformation to support the Company's four-point turnaround strategy.

Transnet is striving towards a performance-driven culture as one of the outcomes of the turnaround strategy. Our remuneration philosophy is also focused on the establishment of a performance and reward culture in the Company. Performance management has been implemented for all non-bargaining employees across the business. Part of the performance management roll-out included the design of individual strategic performance objectives (SPOs) that are aligned with Company objectives. A performance incentive scheme was implemented for staff in the non-bargaining unit as well as for those in the bargaining unit category.

In support of skills development, a strategy to ensure the future availability of quality skills is being implemented. Various initiatives were launched to increase the effectiveness of skills pipeline development to increase numbers of previously disadvantaged people in technical, supervisory and managerial levels.

During the year, Transnet initiated several new training programmes to augment existing initiatives. A few are worth mentioning:
- At present, Transnet supports 175 bursars in various engineering disciplines at tertiary institutions. This is a new initiative over and above those undertaken by our operating divisions;
- We are also supporting some 173 students at institutes of technology. The plan is to increase this number to 300; and
- To address future needs of artisans in our Company, we have recruited 1 261 apprentices who are currently undergoing training in different trades. This is a five-year project.

Apart from addressing Transnet-specific skills challenges, Transnet is also committed to tackling the shortage of skills across the country. We are working with other organisations in addressing this challenge. Together with Denel, the State-owned arms manufacturer, we are supporting 50 students who have been enrolled in the Youth Foundation and Schools Outreach programme.

We are also active members of TOPP (training outside public practice) and its Thuthuka bursary programme. The Transnet TOPP Programme, launched in 1996, seeks to increase the number of chartered accountants, particularly from previously-disadvantaged communities, in South Africa. Trainee accountants get the opportunity for on-the-job training in Transnet and its operating divisions, in order for them to qualify subsequently as chartered accountants.

The Transnet TOPP programme is also a sponsor of the South African Institute of Chartered Accountants (SAICA) Thuthuka bursary programme. At present, Transnet is funding 20 accounting students who are part of this scheme. Transnet's involvement will continue until 2010 by which time Transnet will have sponsored 50 students. All these students will join the Transnet TOPP programme.

We also support the Government-led Joint Initiative on Priority Skills Acquisition (Jipsa).

On talent management, we have identified mission-critical positions and have developed a talent management policy and a leadership development programme.

Change management is a cornerstone of any major corporate restructuring. Emphasis was placed on ensuring that top managers were aligned to Transnet's turnaround strategy, and on cascading this to lower levels of management.

On its first anniversary, the Strategic Leadership Forum (SLF), has lived up to its mission of being the centrepiece for high-level consultation between the leadership of trade unions and our Executive Committee; the participation of all its members has significantly enriched the quality of the engagement; and, it has been a good consultative forum on the implementation of our strategy.

OPERATING DIVISIONAL HIGHLIGHTS

Introduction

This section will highlight some of the major achievements of the five operating divisions and identify our key challenges. These are dealt with in detail in the divisional reports in the later sections of this Annual Report.

All our operating divisions are trending in the right direction with volume increases driving growth in revenue. Volume increases and better asset utilisation are key to achieving our goal of reducing the transport-related costs of doing business in our country.

Also, the past year showed the distance we have travelled in re-orienting our divisions towards customers – the key stakeholder – and in strengthening the resilience of all our divisions to withstand critical challenges including equipment failures and exogenous factors such as adverse weather conditions.

Freight Rail

This operating division, by far our largest and most complex, is showing pleasing progress. Its performance during the year showed that the focus of our efforts – management, financial, people resources and reengineering – are starting to yield desired results.

Achievements in the year include:

- Productivity improvements enabled the operating margin to increase to 14,8% (2006: 14,3%);
- Operating profit increased 8% to R2,2 billion in the year;
- Capital spending for the year grew to R7,4 billion (including capitalised maintenance expenditure of R3,3 billion), compared to the R3,8 billion in the previous year;
- Revenue rose to R14,6 billion (2006: R14,1 billion);
- Finalising the transfer of 6 253 maintenance employees into Rail Engineering during the year; and
- Completing the integration of maintenance depots into Rail Engineering. This programme, which doubled the size of Rail Engineering, yielded positive results both in terms of productivity improvements and reliability of rolling stock.

Volumes transported did not meet our expectations. This was due to a range of factors. The coal export line was severely affected by the mines' inability to produce coal during the rainy season which was particularly severe in the first quarter of the year. Derailments and other safety-related incidents reduced capacity on the coal and general freight business lines. The national strike in the security sector, which saw a rise in the incidence of cable theft, also adversely affected the delivery of volumes.

Our focus remains on addressing all the factors within our direct control, which constrained the growth in volumes and revenue in this division. Improving the safety of the railway and its operational efficiency remain key initiatives of the Vulindlela programme.

The priority is to increase volumes in the general freight business of Freight Rail where there are significant opportunities.

Additionally, we are investing heavily in maintenance, rolling stock and infrastructure with the objective of improving our service offering to our customers and taking advantage of the growth opportunities in the market.

We expect the finalisation of the transfer and sale of the two remaining passenger rail services – Shosholoza Meyl and The Blue Train, respectively – to contribute

"All our operating divisions are trending in the right direction."

towards improving productivity further as management can now focus on freight.

Rail Engineering

This division plays a vital support role in the turnaround of Freight Rail. During the year, the successful integration of 6 253 rolling stock maintenance employees from Freight Rail into the organisation was completed. The consolidation of the rail maintenance function is a key step in our plans to create, cultivate and embed a culture of planned maintenance in our business, especially in the rail operations.

Significant progress was made in this regard during the course of the year.

Achievements in the year included:

- Revenue increased by 90% to R7,3 billion;
- Operating profit increased by 41% to R1 billion; and
- Reliability and availability of rolling stock on the coal and iron ore lines of Freight Rail were significantly improved.

National Ports Authority

This division had another good year, benefiting from strong volume growth and economic expansion. This was in spite of the fact that the increase in capital investment – from the previous period's R783 million to R1,1 billion – fell short of what was planned due, in part, to difficulties with obtaining environmental impact assessment (EIA) approvals (affecting the expansion of the Cape Town Container Terminal) and delays in completing the first phase of the Port of Ngqura.

The new National Ports Act came in effect in December 2006 and National Ports Authority is investing time and resources into dealing with this. An extensive internal programme to reorganise the division's functions to comply with the Act and its Regulations is in place. Considerable progress was made in this regard. Post-balance sheet, the Government announced the names of the members of the Independent Ports Regulator under the chairmanship of businesswoman Ms Gloria Serobe. We look forward to building a healthy working relationship with the Regulator.

Achievements in the year included:

- Revenue increased by R669 million which includes an average tariff increase of 1,3% and a volume increase of 15,5%; and
- Operating profit increased by R409 million or by 10% to R4,5 billion.

Capital spending for the year grew to R1 billion compared to R783 million in the previous year. This was considerably behind our budgeted plans which were set back by regulatory delays, relating to the EIA challenges in the planned expansion of the container terminal in Cape Town and delays in completing the first phase of the Port of Ngqura.

The appointment during the year of the General Manager responsible for EIAs within Capital Projects and the attention we are paying to speeding up the approvals process are expected to address these challenges.

Port Terminals

This division achieved another set of positive results. During the year, it faced a number of challenges including a major equipment failure at Saldanha and a surge in container volumes coinciding with extremely bad weather conditions.

Following the resumption of operations, a string of loading performance records was achieved.

Achievements in the year included:

- Revenue increased by 14% year-on-year;
- Operating profit improved year-on-year by 48%, to R1,4 billion; and
- The containment of cost increases, in percentage terms, has been brought to levels less than the growth in revenue, resulting in the operating margin increasing from 26% to 33%.

Pipelines

This division is continuing to perform exceedingly well and is poised for further growth in the future especially rolling out the "Bridging Plan" and other initiatives to address capacity constraints ahead of the commissioning of the planned new multi-product pipeline.

Its achievements during the year included:

- Revenue increased by 15% to R1,2 billion mainly due to volume growth;
- Operating profit improved by 8% to R672 million; and
- Overall petroleum volume throughput increased by 8,1% and gas by 14,6%.

For the future, though, it is worth pointing out that its prospects will depend on the tariff determination methodology that has still to be announced by the regulator. This will determine the prospects of success in generating revenue sufficient to cover the cost of capital required for investment especially in the NMPP which is vital for addressing the country's future petroleum needs.

For the new year, the budgeted tariff of 5,6% was turned down. The start of the NMPP is dependent on the imminent licensing process and appropriate tariff increases that will confirm a fair return based on Transnet's weighted average cost of capital being confirmed.

SUPPLY MANAGEMENT AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

In undertaking the process of disposing of our non-core assets, we drew up a range of criteria that had to be met by prospective buyers of these entities. In addition to technical expertise and price (backed by guaranteed funding), prospective acquirers were required to include in their proposals participation by broad-based black economic empowerment partners as defined in the Broad-Based Black Economic Empowerment Act (and subsequently amplified in various codes of good practice of BEE). We are pleased to report that all the transactions we concluded and those in which Transnet was a majority shareholder – save for those where there were pre-emptive arrangements with existing shareholders – resulted in significant BEE participation or were concluded with empowered parties. These included:

- V&A Waterfront (Pty) Ltd – more than 25%, including 2% participation by black employees of the company;
- TPFA – sold to empowerment players Kagiso Trust Investments, Metropolitan Life and Fifth Quadrant; and
- Transtel's FSN metro assets – sold to Neotel (Pty) Ltd, an empowered telecoms player.

Our biggest and real lever for facilitating BEE comes not from the disposals of non-core assets but from our significant purchasing power.

We have completed the overhaul of our procurement system and processes to make them more efficient, transparent, ethical and fair. We have significantly streamlined the processes by replacing tender boards with acquisition councils. We have in place an internal process that seeks to ensure that we are meeting our objectives of conducting fair and transparent dealings with the public.

On strategic sourcing, we have set internal targets of savings. We saved R552 million during the past year and are on track to meeting our target without comprising the quality of our services.

We are also working with the DPE on helping local suppliers to become globally competitive as part of our support for the Government's Accelerated and Shared Growth Initiative of SA (AsgiSA).

"37% of operational expenditure this year went to companies owned or controlled by black entrepreneurs."

All these initiatives should considerably enhance our ability to meet the developmental expectations of our shareholder as set out in the Shareholder Compact.

During the year, we spent R10,6 billion on a range of services in support of our operating divisions. Of this, 37% went to companies owned or controlled by black entrepreneurs. These amounts relate to operational expenditure.

ECONOMIC REGULATION

Transnet operates in a highly-regulated environment. The regulation covers, amongst others, an economic, safety, health, environmental and labour focus. The challenge posed particularly by economic regulation requires continual interaction with policy makers especially in the light of the developmental needs of our country.

National Ports Act

The commencement of the National Ports Act in November 2006 ushered in a new regulatory regime for Transnet's port divisions, bringing with it a range of challenges. The legislation places significant responsibilities on National Ports Authority to ensure the safe, efficient and effective economic functioning of the national ports system. It introduces an independent ports regulator which must oversee the performance of the National Ports Authority functions, approve its tariffs and hear complaints and appeals from port users. Transnet has therefore embarked on a programme to invest in new systems and capacities within the National Ports Authority to perform the additional functions prescribed by the legislation, and to prepare for the wide-ranging ports regulatory powers that the Act creates. Due to the significance we attach to our interaction with regulators, we have set up a sub-committee of the Group's Executive Committee, to oversee this interface. We look forward to a productive and sound working relationship with the new Independent Ports Regulator. We are also confident that the continuous engagement between our Board and the shareholder over some aspects of the Act will yield satisfactory outcomes.

Pipelines – tariffs and the construction of the new multi-product pipeline (NMPP)

On 31 March 2007, Transnet was informed that NERSA, the energy regulator, had declined its application for a 5,6% across the board increase in tariffs for Pipelines. The reasons were supplied over a month later.

It has to be pointed out that, at the time of compiling this report, NERSA had yet to approve a formal methodology for pipeline tariffs, and that its process to do so was only expected to be finalised during the second half of 2007.

We are, however, engaging with the relevant authorities through agreed channels to bridge the differences and ensure that an appropriate tariff regime which will enable Transnet to achieve a fair return (that is, one greater than the weighted average cost of capital) on the planned investment would be in place.

LETTER TO SOCIETY

A compassionate Company

Reforms for the benefit of the members of the TSDBF and TPF

Pensioners and their dependants are important stakeholders in any company. At Transnet, we have three pension funds – namely, the Transnet Second Defined Benefit Fund (TSDBF), Transnet Pension Fund (TPF) and Transnet Retirement Fund (TRF). The first two are defined-benefit funds, while the TRF is a defined-contribution fund.

I wish to take this opportunity to outline the measures we, as a Company, have taken with trustees of these independent funds, to enhance the welfare of their members. I will only deal with the defined-benefit funds – that is, the TSDBF and the TPF.

These funds are audited by independent auditors and assessed by independent actuarial firms. They have independent Boards of Trustees, rules that govern a range of matters (including benefits) and investment committees that decide each fund's investment strategy.

Transnet cannot unilaterally change any of the pension funds' rules. Any changes to the rules require the approval of the respective Boards of Trustees; Transnet Ltd's Board of Directors; and the Ministers of Public Enterprises and Finance.

TSDBF

This fund, which is a closed (meaning no new members are allowed) pensioner-only fund, has been restructured over the past two years to resolve a number of problems including a deficit of approximately R5 billion. It is now in a financially strong position – in fact, it now has a surplus of R1,9 billion.

Its assets are now split into two categories: the first comprises assets invested to secure the pension payments and the 2% increase for the future. These are mainly made up of a bond portfolio so that asset cash flows approximate forecast payments. The second comprised the balance of the assets that will be invested in a balanced portfolio where any surpluses will be available for trustees to consider bonus payments to pensioners.

One rule has given rise to a great deal of concern to pensioners. This relates to the scale of the increase in benefits to which members are entitled each year. This provides for a guaranteed 2% increase each year regardless of the fund's performance or whether the fund's financial health is such that it can afford an increase of greater than 2%. This rule has been in existence since the inception of the TSDBF and arose long before 1990, in the old SATS funds.

Accordingly, together with the trustees, we have been working on an initiative which will benefit the pensioners of the TSDBF. I am pleased to announce that in January 2007 we agreed rule amendments that will provide Trustees with the power to pay pensioners bonus amounts. These will be in addition to the guaranteed 2% per annum increase that pensioners already receive.

This is part of our bid to ensure that the trustees are able to supplement the pensioners' current pension benefits when the fund has delivered strong returns (subject to affordability).

Ex-gratia bonus for the members of the TSDBF

In the interim, however, Transnet understands fully the difficulties faced by those pensioners who are battling to meet their daily living expenses as a result of the effects of inflation, medical costs, fuel price increases, etc. Therefore, to assist these pensioners and their beneficiaries, Transnet has funded the payment of a once-off ex-gratia bonus for the pensioners and beneficiaries of the TSDBF. This will also be paid to "previously disadvantaged widows" (those spouses of black pensioners who retired from Transnet between 16 December 1974 and 1 April 1986 but who died prior to 1 November 2000 and whose spouses are not entitled to a spouse's pension from the Transnet funds). This bonus is from Transnet and not from the TSDBF. It will cost Transnet in the region of R125 million.

In determining this bonus, the plight of those pensioners with long service (as these individuals are unlikely to have significant alternative retirement funding income), those over the age of 65 years (it is unlikely they are in a position to earn supplementary income), and, for obvious reasons, those with very low pensions, took priority.

"We believe that our business and the communities in which we operate are interdependent."

This payment is in addition to any benefit currently being received from the TSDBF, including the 2% annual guaranteed increase.

TPF
This fund has also been restructured and is now in a significant surplus position. We are awaiting the approval of various rule amendments and the promulgation of amendments to the Transnet Pension Funds Act, 62 of 1990, in order to implement the planned reforms including the ability to pay pension increases in excess of 2%, subject to affordability.

A new pensions dispensation
The disposal of all the non-core companies means that, amongst other things, thousands of employees leave our employ with each disposal to become a new owner's employees. Ordinarily (and this is the practice across the globe), the employees have to participate in the retirement provision arrangements of their new employer.

In discussions with us, the unions requested that we create an unprecedented regime which would let employees of those entities transferring to Government and/or State-owned enterprise type operations (eg Metrorail and SAA) to remain members of the Transnet pension funds.

This was a difficult request, but we agreed to it. Consequently, amendments to the existing Transnet Pension Funds Act were passed by Parliament and are awaiting the required Presidential approvals. In terms of the amendments, the TPF and TRF will become multi-employer funds.

In the case of the defined-benefit fund, the TPF, the different employers will be the guarantors of the sub-fund applicable to their employees.

In essence, this means the transferring employees can stay as members of the TPF and Transnet Retirement Fund, though their new employers will contribute to the funds and take on all the appropriate and applicable obligations. This option (only available to cases where the State is the employer) means that the new employer is the responsible party.

Corporate social investment
We believe that our business and the communities in which we operate are interdependent. Accordingly, we cannot be indifferent to the issues facing the communities around us.

We are also aware that we cannot solve all of the issues faced by these important stakeholders. However, the positive impact of our interventions can be enhanced by a careful selection of fewer, but not insignificant, activities.

In last year's Annual Report, I reported on the process to re-orient the work of the Transnet Foundation strategically so as to better align it with our new corporate strategy and to maximise the impact of our philanthropic interventions. Considerable progress was made during the year to redefine the work of the Foundation. Henceforth, it will focus on three main areas: health, education and the arts. Accordingly, strategies are in place for the Foundation to exit from a range of projects that no longer have a strategic fit. These include support for the heritage activities, moral regeneration and some provincial cultural activities as well as support for entrepreneurial development initiatives.

On the health front, we are delighted that prospects for the second health train or Phelophepa 2 are brighter than ever before. There are plans for the second train to improve the delivery of mobile healthcare services in primary health (including HIV/Aids), dental care, pharmacy and eye care. This is based on the runaway success of Phelophepa 1.

In education, the Foundation continues to support the Transnet-SAFA School of Excellence – a soccer academy for young gifted football-playing learners from disadvantaged backgrounds and neighbouring countries. The founding partners – Transnet and SAFA, football's controlling body – are working towards revamping this initiative and placing it at the centre of the preparations for the 2010 Soccer World Cup.

The re-orientation also entails a reappraisal of the legal structure of the Foundation with a view to finding a more taxation-efficient form without losing the benefit of the wealth of insight, skills, expertise and experience brought to the Foundation by its various trustees.

LOOKING AHEAD

Containerised freight continues to be the fastest growing segment of the freight transport market both internationally and domestically. The increasing penetration of containers into traditional bulk and break-bulk cargo has seen the importance of this segment grow steadily over the past three decades, and most global manufacturing supply chains now depend on the efficient and effective handling and processing of containers. Containerisation has also been a significant enabler of the global production system, which is seeing the emergence of new international trade corridors.

South Africa is well located in relation to these new trade corridors, especially the emerging south-south trade routes, and this creates significant advantages for local manufacturers to participate in global supply chains. To take advantage of this highly significant opportunity, Transnet has developed a strategy for the container market that is aimed at reducing ocean freight costs and at increasing the country's maritime connectivity with the rest of the world, particularly Asia.

A key enabler of this strategy is an integrated and complementary port and rail system working in pursuit of common goals.

The opening of the container terminal at the port of Ngqura provides Transnet with the opportunity to look for an international terminal operator as a strategic partner to operate this port.

Freight handling infrastructure is a critical determinant of the performance of the bulk freight sector. In South Africa's case, over the past two decades there has been too little investment in bulk freight handling infrastructure. Consequently, the overall performance of the transport system experienced a steady decline. The focused implementation of Transnet's strategy over the past three years, with its emphasis on infrastructure investment and operational efficiencies, has seen this decline starting to reverse. However, there is much to be done from an infrastructure perspective to meet the economy's short- and long-term demand for freight transport.

During the year, we developed an integrated port and rail master plan – a development framework for the backbone of the rail and port freight system in South Africa. The master plan identifies the current core system and how this core will develop over time to meet future demand for freight transport in the economy efficiently and effectively. Transnet's freight demand model, developed during 2006, provides a key input into this process.

Freight forecasts predict that demand will continue to consolidate around existing freight corridors. This will facilitate the construction of a high-density core network that will lower the unit costs of transport. The master plan adopts a corridor approach to infrastructure development. This focus on the port and rail elements of the bulk freight supply chain ensures integrated planning and sequencing of investments. It also supports an overall capacity provision strategy that aims to maximise the utilisation of existing infrastructure and to minimise infrastructure duplication. The master plan provides the most useful framework around which other participants in the freight system can align their plans.

APPRECIATION

The task of transforming a massive organisation with established cultures such as Transnet can be daunting and, at times, seem insurmountable. It requires commitment, resilience, and dedication from all stakeholders. Fortunately, at Transnet I have experienced all these qualities from many stakeholders. They are too numerous to mention them all here. Still, a few, without whose support we would never have accomplished a fraction of the things we set out to do in the beginning, are worth noting here.

Let me thank my extended Transnet family – that is, the Group's Executive Committee and their families. Our employees and their families play an incredibly

"We are bullish about the Company and that it is growing."

important role. Their contribution is deeply appreciated.

On behalf of my colleagues in the Group Executive Committee, let me thank our Chairman, Mr Fred Phaswana, for his and for the entire Board's continuing support for our transformation.

I would also like to extend my gratitude to Minister Alec Erwin, MP, for support and that of his department , notably Ms Portia Molefe, the Director-General at DPE, for Transnet's transformation. Throughout his tenure as our shareholder minister, he has been nothing but a true believer in the transformation of this Company into a world-class freight transport provider.

Let me also take the opportunity to thank Mr Yunus Carrim, MP, Chairman of the Portfolio Committee on Public Enterprises, and the members of the committee, for their continued support of our work and for constantly playing a genuine role of being independent supporters of our transformation project.

My most sincere appreciation goes to organised labour and the members of the SLF – the joint initiative between my executive and labour – for their active participation in the work of this forum. Organised labour is one of the key elements that make, and maintain, ours a progressive economy.

Our customers are the only reason we are in business. Let me thank each and every one of them. We trust that you are experiencing the positive impact of the improvements we are making. Freight is a network business and Transnet's success depends, to a large extent, on its network partners. For the future, it is our intention to strengthen our partnerships to derive greater value from our freight logistics system.

Our financiers are, together with internally generated resources, funders of our business. We appreciate your support and constructive engagement.

Finally, our hearts go out to the families of the 26 colleagues who lost their lives on duty during the year. Our ongoing focus on safe operations is, in part, designed to ensure that their loss is not in vain and that the memory of our deceased colleagues is appropriately honoured through a significant reduction, if not elimination, of fatalities.

CONCLUSION

The consistent improvement in the financial and operational performance of the Company over the past three years provides clear evidence of the appropriateness of the strategy. During this period we have seen Transnet transform from a poorly-performing group of loosely related logistics businesses into a tightly-focused business with a common vision. It is a reflection of how far we have come.

Since beginning the journey of transforming Transnet some three years ago, the scale of the Company's investment programme has doubled to today's R79 billion.

A growing Transnet is an integral part of the South African economy and an important contributor to the 6% plus GDP target envisaged in AsgiSA.

The level of our investment programme tells the story about our own business and our view about our country's economy. Simply, we are bullish about the Company and confident that it is growing (for the first time in two decades) and that it is poised for further growth in coming years.

Maria Ramos

Group Chief Executive
21 June 2007

Chris Wells
Chief Financial Officer

INTRODUCTION

The year ended 31 March 2007 was extremely challenging for the Group. Nevertheless, it was a very successful year, as evidenced by sustained financial performance, significant progress in the disposal of non-core businesses and investments, a stronger balance sheet and meeting all our shareholder's expectations as outlined in the Shareholder Compact (refer to the Report of Directors on page 143).

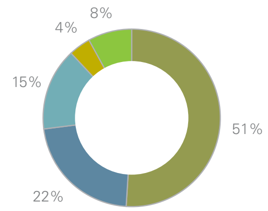
These achievements provide the appropriate platform for the execution of the capital expenditure programme that will enable economic growth and contribute to AsgiSA's 6% GDP growth target.

As we note the successes of the turnaround strategy we also record new challenges. This takes the form of regulators that need to approve Transnet's tariff increases prior to implementation. The impact of regulated tariff increases is far-reaching as it impacts capital investment decisions.

GROUP OPERATING PERFORMANCE – CONTINUING OPERATIONS

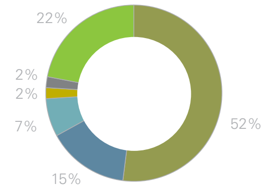
The positive economic environment prevailing throughout the year, both in South Africa and with our major trading partners, enabled revenue to grow 8% to R28,2 billion (2006: R26,0 billion). This revenue growth was based on an average price increase of 4% coupled with volume growth approximating 4%.

All operating divisions, with the exception of Freight Rail, grew volumes strongly. Freight Rail's lack of volume growth can be attributed to capacity constraints, customer



Revenue contribution per operating division

- Freight Rail
- National Ports Authority
- Port Terminals
- Pipelines
- Other



Operating costs*

- Personnel and benefits
- Energy
- Operating leases
- Material costs
- Maintenance costs
- Other

* continuing businesses

production problems and derailments. The Group-wide reengineering programme, "Vulindlela", was a priority for Freight Rail where the focus is on operational efficiency, planned maintenance and the purchase of new rolling stock. This programme has made a significant contribution to the operational improvements which are evident throughout the Group.

Many operational challenges were faced during the year, including the collapse of the ship loader structure in Saldanha, rough seas experienced in March 2007, which closed most ports for five days and adverse weather conditions preventing the coal mines from producing the required coal volumes. Despite these issues, Transnet was able to meet its customers' requirements, reflecting the continuing transformation to becoming a customer-focused business.

Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 12% to R11,5 billion (2006: R10,3 billion) enabling the EBITDA margin to increase to 40,7% (2006: 39,6%) in the current year. This profit increase is attributable to productivity improvements and cost-saving initiatives undertaken, resulting in operating expenses increasing by only 6,3% to R16,7 billion (2006: R15,7 billion).

Included in operating expenses are certain once-off costs, notably R125 million for a bonus payout to Transnet Second Defined Benefit Fund members, a R100 million additional contribution to the Transnet Pension Fund and R165 million in respect of restructuring costs. Adjusting for these costs, operating expenses would have increased by only 3,8%, well below the inflation rate.

Depreciation and amortisation of assets for the year increased by 39,5% to R3 billion (2006: R2,1 billion). This increase is due to the acceleration of the capital expenditure programme and commencement of depreciation on capitalised maintenance in terms of IFRS. Consequently the profit from operations after depreciation and amortisation reflected a modest increase of 4,1% to R8,4 billion (2006: R8,1 billion) when compared to the prior year.

Fair value adjustments of R2,4 billion (2006: R0,8 billion) enabled profit from operations before finance costs to increase by 15% to R10,7 billion (2006: R9,2 billion). The fair value adjustments derive mainly from the investment in a "C" class preference share and an increase in the carrying value of investment properties.

The value of the "C" class preference share moves in concert with the MTN share price and increased by R1,7 billion (2006: R500 million) to R5,5 billion (2006: R3,8 billion). The increase in the value of investment properties amounted to R490 million (2006: R372 million).

Finance costs remained at similar levels to those of the prior year. However, the Group's weighted average cost of debt (WACD) of 11,9% is very high due to legacy debt. It is anticipated that the WACD will decrease significantly as new cost-effective borrowings are raised.

The taxation charge for the year amounted to R1,9 billion (2006: R2,0 billion), comprising a current taxation charge of R0,9 billion and a deferred taxation charge of R1 billion. The effective taxation rate for the Group is 22,93% (2006: 31,31%) for the year, which is below the corporate taxation rate of 29% due primarily to fair value gains which are exempt from taxation.

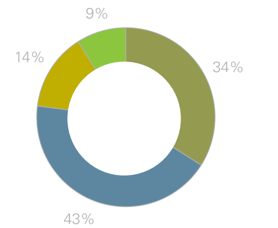
Sensitivity analysis	R million
Revenue (+1%)	301
Personnel costs (+1%)	111
Energy costs (+US$1 in oil price)	14
Material (+1%)	20

This table illustrates the impact of a 1% movement in various elements and the consequent impacts and should be read in conjunction with the graphic entitled 'Operating costs'. As can be seen from the table above, revenue growth is the key driver for attaining improved results. In this regard volume growth is specifically targeted.

GROUP OPERATING PERFORMANCE – DISCONTINUED OPERATIONS

In the prior 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 (SAA);
- V&A Waterfront Holdings (Pty) Ltd;
- Autopax Passenger Services (Pty) Ltd;
- freightdynamics;



EBITDA contribution

- Viamax (Pty) Ltd;
- Equity Aviation (Pty) Ltd;
- VAE Perway (Pty) Ltd; and
- Freight Dynamics Guard Risk.

In addition to the above entities the following businesses/investments were classified as non-current assets held-for-sale or reported as discontinued operations in the current year:
- Transnet Housing Loan Book;
- Shosholoza Meyl;
- Transnet Pension Fund Administrators;
- Luxrail (Blue Train);
- Transtel DEVI assets; and
- arivia.kom.

These entities reported revenue of R22 billion (2006: R22,2 billion) and a net loss of R349 million (2006: R47 million).

The Group profit from discontinued operations of R1,1 billion (2006: R102 million) comprises an operating loss of R349 million (2006: R47 million) and a profit on disposal of operations of R1,4 billion (2006: R149 million). The most significant disposals during the year were South African Airways (SAA) and the Group's interest in V&A Waterfront Holdings (Pty) Ltd (V&A). The investment in V&A was sold for R7 billion, of which Transnet's 26% share of the proceeds amounted to R1,8 billion, and a Group profit on sale of R711 million was recognised.

The major business of the Group that has been classified as a discontinued operation is SAA. Transnet and the South African Government concluded a sale agreement for the sale of SAA to the Department of Public Enterprises with risk and rewards of ownership passing to the Government on 31 March 2006. The effective date of sale has been recorded as 31 March 2007, being the date on which all suspensive conditions were fulfilled. The R2 billion sale price of SAA was discharged by means of a share buy-back and the net impact thereof on the Group was a reduction in capital and reserves of R1 billion. It should be noted that Transnet had recapitalised SAA by injecting R8,4 billion in cash over the last three years, all of which has been written-off.

South African Airways
Revenue increased by 6,8% to R20,6 billion, which was negatively impacted by low-cost carriers and lower passenger yields. Revenue includes an amount of R683 million (2006: R1 billion), relating to the release of prescribed ticket sales to income, and fuel levies amounting to R2,4 billion (2006: R2,2 billion).

Net operating expenses excluding depreciation and amortisation, increased by 12,8% to R20,5 billion, mainly as a result of the increase in fuel prices which showed an effective increase of 14,5% over the prior year. Aircraft lease costs increased by 32,5% to R2,5 billion (2006: R1,9 billion) as a result of sale and leaseback transactions entered into in March 2006 for two Airbus A340-600 aircraft as well as the introduction of the MD 11 cargo aircraft in the past year. An operating loss for the year of R603 million has been recorded (2006: profit of R425 million).

GROUP FINANCIAL POSITION

TAXATION
The deferred taxation liability increased from R52 million to R1,7 billion in the year due to increased temporary differences as a result of the capital expenditure programme and post-retirement benefit obligations, together with taxation on the increased carrying value of property, plant and equipment recorded at fair values.

The Minister of Finance, in his budget speech on 21 February 2007, noted that the regime relating to the taxation depreciation of fixed and moveable assets will be reviewed to ensure a greater degree of consistency. Noting further that one way of reducing the cost of doing business in South Africa is to improve the efficiency of transport networks and ports, it was proposed to reduce the taxation depreciation periods for new rolling stock from 14 years to five years, and for new quay walls and other port facilities to qualify for deductions over 20 years rather than non-depreciable for taxation purposes.

The effective date of these proposals, and the exact impact on Transnet, will be confirmed when the legislation is drafted, but the proposals will have a positive impact on Transnet's cost of funding and funding requirements of its capital expenditure programme.

"Gearing improved to 39% and cash generated from operations improved by 20% to R13,5 billion."

BORROWINGS

Whilst interest-bearing borrowings increased by R3,3 billion in the year, cash and cash equivalents increased by R1,8 billion, resulting in a net borrowing increase of R1,5 billion. The increase in borrowings was used to fund capital expenditure, and in this regard long-term loan facilities of R3,3 billion were raised at very competitive rates to fund the acquisition of locomotives and cranes. R1 billion had been drawn down on these facilities at 31 March 2007.

The gearing ratio at year-end of 39% (2006: 46%) improved significantly in the current year and reflects the strength of Transnet's balance sheet. The Group is well-positioned to fund the capital expenditure programme cost-effectively.

The Group has adequate cash on hand and banking facilities to meet its commitments. At the end of the year Transnet had unused borrowing facilities of R54 billion, of which R5 billion is available immediately as short-term loans.

A detailed analysis of all the Group's borrowings and related exposures is contained in notes 25 and 30 and annexure A to the annual financial statements.

In line with the strategic objective of lowering the cost of doing business in South Africa, Transnet continues to play a pivotal role in both the local and international money and capital markets.

Subsequent to the year-end Transnet appointed an arranger and lead joint-managers to assist with the implementation of a domestic medium-term note programme under which domestic market bonds and commercial paper issuances will take place. In addition, a multi-sourced facility with the appropriate export credit agencies is being implemented to facilitate cost-effective and flexible funding for imported equipment.

PENSION AND POST-RETIREMENT BENEFITS

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

The two defined-benefit funds, namely the Transnet Second Defined Benefit Fund (TSDBF) and the Transnet Pension Fund (TPF), are fully funded with actuarial surpluses in excess of R1,9 billion and R1,1 billion respectively, which reflects a decrease in the post-retirement benefit obligation for these funds of R1,6 billion compared to the prior year. Transnet has not recognised any portion of the surplus on these funds as the fund rules at present do not allow for the distribution of a surplus.

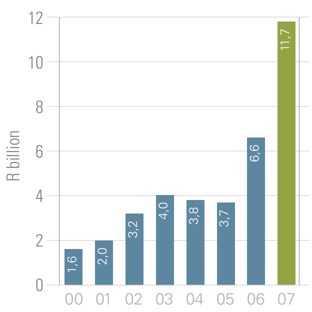
An ex-gratia once-off bonus payment of R125 million for all members of the TSDBF has been provided for by Transnet. The payment basis of the bonus will include those pensioners with long service (as these individuals are unlikely to have significant alternative retirement funding income), pensioners that were previously disadvantaged by the rules of the fund and those individuals who receive relatively low pensions despite long service.

Transnet, together with the Trustees of the TSDBF, has moved a significant portion of the fund assets from equities to cash and bonds. The fund's asset allocation is now more appropriate for a closed fund of this nature. Furthermore, a cash flow matching programme will be implemented during 2007.

The labour unions requested that members of Transnet's pension funds could remain as members if the entity that employs them remains a State-owned entity (principally to accommodate SAA and Metrorail employees at this stage). To accommodate this requirement and certain other amendments, the Transnet Pension Fund Act was revised through a Parliamentary process and is awaiting presidential signature. Accordingly, the TPF and the Transnet Retirement Fund will become multi-employer funds.

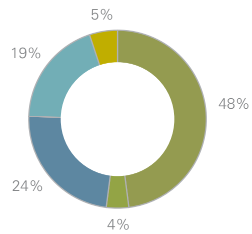
Dealing with the TPF specifically, separate "sub-funds" boards of trustees will be formed. The utilisation of any surplus will therefore need to be dealt with separately by each sub-fund and the trustees and Transnet will make announcements in this regard in due course.

The post-retirement benefit obligation for the medical funds has decreased by R330 million to R2,1 billion (2006: R2,4 billion).

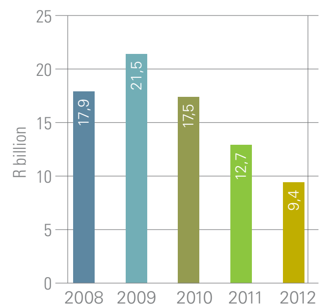


Historic capital expenditure*

* Excluding SAA



Capital expenditure for 2008



Forecast capital expenditure

CASH FLOWS

Cash generated from operations before working capital changes increased by 20% to R13,5 billion (2006: R11,2 billion) and net cash generated from operating activities increased by 51% to R8,9 billion. These significant increases reflect the Group's ability to generate strong cash flows.

Cash interest cover and CFROI (cash flow return on investment – a reflection of the 'real' returns earned above inflation) are key measures for the Group as they reflect respectively the ability to service borrowings and to earn an appropriate return on investment. Cash interest cover increased to 5,4 times (2006: 4,5 times) and CFROI increased to 6,8% (2006: 5,8%). These measures demonstrate that Transnet is comfortably able to service its borrowings and is achieving returns in excess of its weighted average cost of capital.

CAPITAL EXPENDITURE

In light of historic under-spending, as can be seen from the graphic above entitled 'Historic capital expenditure', capital expenditure plans for the continuing businesses over the next five years amount to R79 billion (2006: R65 billion) and relate mainly to the upgrade and expansion of rail, port facilities and pipeline infrastructure.

Projects that allow for capacity expansion included in the five-year capital expenditure plan include:

- Ore line expansion to 47 million tons;
- Coal line expansion to 86 million tons;
- New locomotives for the coal line;
- New locomotives for general freight;
- New container terminal at Ngqura;
- Expansion at the Port of Durban;
- Expansion at the Port of Cape Town; and
- New multi-product pipeline.

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

Significant progress has been achieved in the roll-out of the capital expenditure plan in the current year, with contracts for new locomotives and port equipment being concluded with suppliers. An amount of R11,7 billion (2006: R6,6 billion) has been invested to expand and maintain operations in the current year, in line with the budget. The expected spend for the forthcoming year is estimated at R18 billion.

A new challenge that faces the capital expenditure programme is the advent of regulation. It is imperative that appropriate tariff increases are approved to enable a fair return on the Company's invested capital.

GUARANTEES

The Group has issued guarantees to third parties amounting to R5,7 billion, the most significant of which relates to promissory notes amounting to R2,2 billion in respect of 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 (2006: R19 billion). Assets pledged in support of secured loans and capitalised finance leases amount to R1,4 billion (2006: R1 billion).

As mentioned above, Transnet concluded a share sale agreement for the sale of SAA to the State. As part of this agreement, Transnet provided certain last resort guarantee facilities to SAA that expired on 31 March 2007. However, due to legislative delays in obtaining a suitable Government guarantee, the existing facility of R1,5 billion will remain in place for a short period until the replacement guarantee is procured.

TREASURY RISK MANAGEMENT

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

As mentioned above, the Group entered into supplier agreements for the purchase of locomotives and port equipment. These contracts were concluded with foreign suppliers and consequently exposed the Group to foreign exchange risk. In accordance with the Board-approved financial management risk framework, the Group entered into derivatives to hedge this exposure. The Group consequently adopted fair value hedge accounting in the current year as allowed by IAS 39 *Financial Instruments: Recognition and Measurement*.

Further details regarding these exposures are contained in note

"Significant progress has been achieved in the roll-out of the capital expenditure plan in the current year"

14 and annexure A to the annual financial statements.

GROUP ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with IFRS, the Companies Act 1973 (as amended), the Public Audit Act 2004 and the Public Finance Management Act 1999 (as amended). The results are presented in terms of IFRS and interpretations that are effective for the year ended 31 March 2007.

Accounting policies used in the annual financial statements are compliant with IFRS and consistent with those used in the annual financial statements for 31 March 2006, except as listed below.

The financial effects of the changes in accounting policies have not had a significant impact on the financial statements. Policy changes were in response to the following amendments to International Accounting Standards and circulars issued by SAICA and relate to:

- IAS 21 *The effects of changes in foreign exchange rates – Net investment in a foreign operation;*
- IAS 39 *Financial Instruments: Recognition and measurement – Fair value option;*
- IAS 39 *Financial Instruments: Recognition and measurement and IFRS 4 Financial guarantee contracts;*
- IFRIC 4 *Determining whether an arrangement contains a lease;*
- Circular 1/2006 *Disclosures in relation to deferred taxation; and*
- Circular 9/2006 *Transactions giving rise to adjustments to revenue/purchases.*

RESTATEMENTS OF THE ANNUAL FINANCIAL STATEMENTS

In the current year the Group reviewed its application of IAS 40 *Investment Property*, which requires the fair value of qualifying property to be established and disclosed in the financial statements. In addition, the application of the initial recognition requirements of IAS 12 in relation to revaluation of assets that are not subject to taxation allowances was amended.

Further details are contained in notes 10 and 37 to the annual financial statements.

The changes in accounting policies and other restatements had the following impact on the financial statements:

	31 March 2006 R million	1 April 2005 R million
INCOME STATEMENT		
Profit for the year attributable to equity holder, as previously reported	**4 539**	
Net effect of restatements	**359**	
IFRIC 4 adjustments	**20**	
Increase in investment properties	**339**	
Restated profit attributable to equity holder	**4 898**	
BALANCE SHEET		
Equity attributable to shareholder, as previously reported	**27 593**	21 018
Net effect of restatements	**1 820**	1 487
IFRIC 4 adjustments	**16**	(4)
Increase in investment properties	**796**	457
Deferred taxation adjustments	**1 008**	1 034
Restated equity attributable to shareholder	**29 413**	22 505

TRANSNET BUSINESS INTELLIGENCE

Transnet Business Intelligence (TBI) is a programme designed to create cohesive information management within the organisation through the effective use of data that is credible, accurate and timely. The programme has, over the past year, made great strides in improving the credibility, relevance and timeliness of financial information.

TBI comprises a suite of projects focusing on critical areas throughout the Company, including financial reporting, risk measurement, operational productivity measurement, human resources and the internal control environment.

A key objective of TBI is the implementation and monitoring of key performance indicators (KPIs) throughout Transnet.

POST-BALANCE SHEET EVENTS

The following significant issues occurred between 31 March 2007 and 21 June 2007:

Sale of "C" class preference share in Newshelf 664 (Pty) Ltd

On 21 June 2007 Transnet Ltd accepted an offer of R5,8 billion from Newshelf 664 (Pty) Ltd, subject to certain conditions, for the redemption of the "C" class preference share held by Transnet Ltd in Newshelf 664 (Pty) Ltd.

In note 14 of the financial statements, the investment in the "C" class preference share in Newshelf 664 (Pty) Ltd was valued at R5,5 billion at 31 March 2007 (2006: R3,8 billion).

The fair value adjustment derived from the investment in the "C" class preference share for the year amounted to R1,7 billion (2006: R500 million). In addition, an amount of R300 million will be recognised in the income statement in the year ending 31 March 2008.

Claim by Umthunzi Telecoms Consortium (Pty) Ltd

On 11 April 2007 the Umthunzi Telecoms Consortium (Pty) Ltd instituted legal action in the Transvaal Provincial Division of the High Court against the Government of the Republic of South Africa as the First Defendant and Transnet Ltd as Second Defendant claiming the delivery of certain MTN Group shares. The claim amounts to approximately R2,2 billion. The Directors have sought and obtained advice from attorneys and counsel and, based on that advice, believe there is no legal basis for the claim and that it is therefore unlikely to succeed.

Sale of Viamax (Pty) Ltd

Transnet Ltd has concluded an agreement in principle to sell Viamax Holdings (Pty) Ltd, its fleet management and leasing business, to Bidvest Group Ltd, for approximately R1 billion.

Sale of Transnet Housing Loan Book

The Transnet Housing Loan Book has been sold to First National Bank with effect from 1 April 2007 for its fair value of approximately R1,4 billion, subject to certain suspensive conditions.

Sale of Transnet Pension Fund Administrators

A sale agreement was concluded between Transnet Ltd, Fifth Quadrant Actuaries and Consultants (Pty) Ltd and Metropolitan Retirement Fund Administrators (Pty) Ltd for the sale of the Transnet Pension Fund Administrator's business for an amount of R23 million with effect from 1 April 2007.

Sale of VAE Perway (Pty) Ltd

A sale agreement was concluded between Transnet and VAE GmbH for the sale of VAE Perway (Pty) Ltd for R30 million. The transaction has an effective date of 16 April 2007.

freightdynamics

Transnet has entered into negotiations for the sale of freightdynamics. The sale of this business will be subject to the provisions of section 197 of the Labour Relations Act and is expected to be completed by 30 June 2007.

Transtel DEVI

Transnet Ltd is involved in negotiations for the disposal of its Transtel DEVI Assets.

PROSPECTS

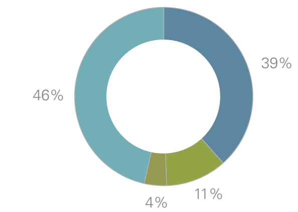
The focus areas for the financial strategy of the Group in the forthcoming year are as follows:

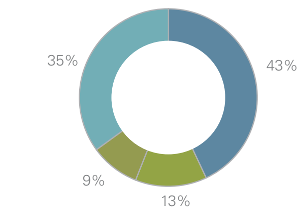
- Strong control environment with reliable, timely and relevant information;
- Improved operational efficiency by focusing on key performance drivers/indicators and improved margins;
- Drive volume growth and ensure total revenue increase exceeds cost increases;
- Capital investment programme roll-out and ensuring the returns achieved exceed WACC; and
- Implementation of the funding plan that adequately addresses the borrowing requirements of the Group and reduces the weighted average cost of debt.

Chris Wells

Chief Financial Officer
21 June 2007

TRANSNET





Continuing operations	2007 R million	%	2006 Restated R million	%
Revenue	**28 214**		26 034	
Cost of materials and services	**(7 905)**		(6 909)	
Net operating expenses excluding depreciation and amortisation	**(16 726)**		(15 733)	
Excluding – Post-retirement benefit obligation costs	**973**		1 054	
– Personnel costs	**7 848**		7 770	
Value added by operations	**20 309**	**89**	19 125	93
Other income	**2 610**	**11**	1 524	7
– Finance income	**187**		262	
– Income from associates	**2**		33	
– Dividend income	**36**		85	
– Sale of interest in businesses	**–**		329	
– Fair value adjustments	**2 385**		815	
Value added/created	**22 919**	**100**	20 649	100
Applied as follows:				
Employees	**8 821**	**39**	8 824	43
– Personnel costs	**7 848**		7 770	
– Post-retirement benefit obligation costs	**973**		1 054	
Providers of capital	**2 624**	**11**	2 668	13
– Finance costs	**2 624**		2 668	
Government	**941**	**4**	1 813	9
– South African taxation	**934**		1 806	
– Foreign taxation	**7**		7	
Re-invested to maintain and expand operations	**10 533**	**46**	7 344	35
– Depreciation, amortisation and impairment	**3 250**		2 287	
– Deferred taxation	**961**		229	
– Profit	**6 322**		4 828	
Value apportioned	**22 919**	**100**	20 649	100

Africa's busiest port – 60% of South Africa's container traffic goes through the port of Durban

TRANSNET

CORPORATE GOVERNANCE

INTRODUCTION

2007 marks the end of the three-year term in office of the Transnet Board of Directors, reckoned from 27 August 2004.

One of the notable areas of strength of this Board has been the individual Directors' ability to come together and work as a focused team in tackling the substantive issues concerning the Company. Apart from the work carried out in the various Committees of the Board as detailed below, ad hoc Board Committees are constituted whenever a need arises for the Board to take lead in areas affecting the Company's strategic focus. Where necessary, the Board constitutes an ad hoc committee to provide direction to the Company's management.

A new Board Committee, the Group Risk Committee, was also formed during the year. At its constitutive meeting in October 2004, the Board decided to assign risk management oversight to the Group Audit Committee. With the Enterprise-Wide Risk Management Framework of the Company having been approved and increased attention required for embedding a risk management culture, it was considered an appropriate time to constitute this new committee under the Chairmanship of Mr Peter Joubert, an independent non-executive Director to assist the Board in exercising its risk management oversight role.

Progress achieved in providing an integrated risk management focus to the Company is set out more fully under the risk management section contained on pages 56 to 59.

From the outset, the Board adopted the approach that promotion of principles of sound corporate governance extends beyond some mechanistic tick box exercises to the substantive advancement of unimpeachable corporate conduct.

Transnet complies with King II in all aspects applicable to it, and King II is the foundation for governance in the Group.

During the year, an exercise was carried out to measure Transnet Ltd's corporate governance performance against the King II Code on Corporate Governance (King II) and the Deutsche Bank Model (Beyond the Numbers, Corporate Governance in South Africa). (The DB Model)

The DB model provides an analysis of corporate governance performance using factors considered to have the highest potential to influence share price movement and other international corporate governance best practices. As Transnet is not a listed Company, some of the questions included in the DB model do not, however, apply to Transnet. This was particularly evident in questions relating to shareholder treatment on issues such as ordinary share voting rights, repricing of share options and barriers to change in control. The exercise revealed that, in many respects, Transnet's corporate governance performance complies with standards stricter than those set out in King II.

BOARD OF DIRECTORS

Transnet has a unitary Board structure with Directors assuming complete responsibility for providing effective control and strategic direction to the Company.

The Company has separate and distinct roles and responsibilities for the Chairman of the Board and the Group Chief Executive. The Chairman is an independent non-executive Director.

The Company's Articles of Association provide that the Company's Board shall consist of no more than 18 Directors. The Board currently comprises 14 Directors and is satisfied that its size is sufficient to enable it to fully and effectively lead the organisation and fulfil the obligations of the Board's mandate.

The definition of independent Director used in this Corporate Governance Report is based on international best practice espoused in the DB Model, using a set of 15 measures.

The majority of the Board members are independent Directors. Apart from the fact that the majority of the Directors meet the set of 15 measures defining independence, the Board places a great premium on each Director's ability to think independently and strategically and thereby add value to the Board's deliberations. This is one of the vital attributes taken into account by the Corporate Governance and Nominations Committee when making recommendations for the appointment of Directors to the Board.

“Transnet complies with King II in all aspects applicable to it”

All the current Directors of the Company were appointed by the Shareholder for a three-year term. A total of 10 of the 12 non-executive Directors were appointed on 27 August 2004. This was an extra-ordinary measure occasioned by circumstances that then prevailed.

During the year, Ms Nunu Ntshingila and Dr Norman Haste, OBE, were appointed as independent non-executive Directors.

The basis for the appointment of these two Directors included, amongst others, the need for the Board to infuse new Directors to allow for proper transition and succession planning.

In respect of each year of the Directors' three-year term, the Directors have to submit themselves for re-election at the Company's Annual General Meeting.

Six Board meetings took place during the year. This includes two two-day strategic workshops held in August 2006 and February 2007. As part of its ongoing induction and first-hand experience of the Company's operations, the Board conducts site visits to the Company's operations across the country and holds some of its meetings at these operational sites. The operations visited during the year included the ports of Port Elizabeth and Ngqura.

As has become the custom, the Board, once again conducted an evaluation of its performance facilitated by independent advisors. These evaluations provide an invaluable opportunity for the Board to reflect on its processes and structures and help determine whether the Board and Committees adequately fulfil their mandates. The evaluation exercise also included an evaluation of the roles of the Chairman, the Group Chief Executive and the Group Company Secretary. The evaluation culminates in the determination of areas of improvement and action plans to drive such improvement. The Board evaluation report prepared by the independent advisors, together with action plans, if any, is submitted to the shareholder.

The Board holds some meetings in-Committee, to allow non-executive Directors to raise any issues not appropriately raised in full Board sessions in a session closed to executives.

The Board has an approved mandate which sets out its authority, powers of delegation and terms of reference. The Board directs and controls the business of the Group. With the exception of the matters set out in the Board's written resolution, as matters reserved for Board decision, the Board has delegated the responsibility to run the operations of the Company to the Group Chief Executive.

The Board reserved matters include, amongst others, the following:

- Approval of strategy, business plans, annual budgets, the borrowing strategy and any subsequent material changes in strategic direction;
- Recommendation for the shareholder's approval of the commencement or cessation of a significant business activity;
- Appointment, removal or replacement of the external auditors of the Company;
- Approval of the rules and amendments to pension and provident funds having a material effect on the actuarial liabilities of those funds; and
- Appointment and removal of the Group Company Secretary.

The Group Chief Executive is authorised to sub-delegate the powers delegated to her by the Board as she thinks fit. The Group Chief Executive submits comprehensive reports to the Board at its meetings. Further, written Board updates are circulated to the Directors in the months where there are no Board meetings scheduled.

The Transnet Board's performance has been exemplary with high levels of participation by all Board members as evidenced by the Board evaluation reports submitted to the shareholder. During the year, two Directors missed more than 25% of meetings, as indicated in the Board attendance schedule below. Despite such absences occasioned mostly by unforeseen circumstances, these Directors diligently participated in the work of the Board and its Committees throughout the year.

Schedule of attendance at Board of Directors meetings

Director	26 Apr 2006	30 Jun 2006	29 Aug 2006	6 Oct 2006	28 Nov 2006	13 Feb 2006
Mr FTM Phaswana (Chairman)	√	√	√	√	√	√
Ms M Ramos	√	√	√	√	√	√
Dr I Abedian	A	√	√	√	√	A
Prof GK Everingham	√	√	√	√	√	√
Ms NBP Gcaba	√	√	√	√	√	√
Dr ND Haste, OBE	*	√	√	√	√	√
Dr SE Jonah, KBE	A	A	√	A	√	A
Mr PG Joubert	√	√	√	√	√	√
Ms NNA Matyumza	√	√	√	√	√	√
Mr BT Ngcuka	√	A	√	√	√	√
Mr S Nicolaou	√	√	√	√	√	√
Ms N R Ntshingila	*	√	√	√	√	√
Ms KC Ramon	√	√	A	√	√	√
Mr CF Wells	√	√	√	√	√	√

√ = Present
A = Apologies
* = Not a member

BOARD COMMITTEES

The Board established four Committees to assist it in discharging its responsibilities, namely the Group Risk, Group Audit, Group Remuneration, and Corporate Governance and Nominations Committees.

Whilst the Board has delegated certain of its functions to these Committees, it remains fully accountable for the proper discharging of the responsibilities. Minutes of committee meetings are included in the Board papers distributed prior to Board meetings and the Chairmen of the respective committees table their reports at Board meetings.

Only non-executive Directors are members of the committees of the Board. The Group Chief Executive and other members of executive management whose presence is required for such committees' effective performance of their responsibilities are invited to be in attendance at committee meetings.

Group Risk Committee

Members: Mr PG Joubert (Chairman), Dr I Abedian, Ms NNA Matyumza, Prof GK Everingham and Ms NR Ntshingila.

The committee held its constitutive meeting on 30 January 2007.

The Board has delegated responsibility for providing assurance on the quality, integrity and reliability of the Group's risk management to this committee. The duties of this committee include:

- Reviewing and assessing the integrity of the risk control processes and systems;
- Ensuring that the risk policies are managed effectively and in accordance with the Enterprise Risk Management Framework approved by the Board from time to time;
- Ensuring effective communication with the Internal Auditors, the external auditors, the Group Audit Committee, the Board, management, regulators and supervisors on risk management; and
- Contributing to a climate of discipline and control which will reduce the opportunity for fraud and other operational losses.

Major risks across the business as well as the embedding of the risk management culture are standing items on the committee's agenda.

In line with the Board's commitment to ensure that the Group operates in a safe environment, safety, health, environment and quality (SHEQ) and risk management form part of the committee's mandate. In the event of a fatality in any of the operating divisions, the Chief

"The Board established four Committees to assist it in discharging its responsibilities, namely the Group Risk, Group Audit, Group Remuneration, and Corporate Governance and Nominations Committees"

Executives concerned and other relevant executives of such divisions appear before the Group Risk Committee and the Board to explain the cause and preventative measures going forward.

The committee's work programme for the year includes holding committee meetings at the operating divisions to highlight the Company's focus on risk management issues and observe the level of implementation of the risk management standards and culture at the operations.

Schedule of attendance at Group Risk Committee meetings: 1 January 2007 – 31 March 2007

Director	30 Jan 2007
Mr PG Joubert (Chairman)	√
Dr I Abedian	√
Prof GK Everingham	√
Ms NNA Matyumza	√
Ms NR Ntshingila	A

√ = Present
A = Apologies

Group Audit Committee

Members: Prof GK Everingham (Chairman), Dr I Abedian, Mr PG Joubert, Ms KC Ramon and Mr S Nicolaou

All the members of the Audit Committee are non-executive Directors and are financially literate. With the constitution of the Group Risk Committee, Ms Matyumza resigned from the Audit Committee with effect from January 2007 and became a member of the Group Risk Committee.

The Audit Committee adds significant value to the Board and the Group by carrying out, amongst others, the following functions:

- Assisting the Board in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Group;
- Reviewing and assessing the integrity and effectiveness of the accounting, financial, compliance and other control systems;
- Considering the internal and external audit process and the accounting principles and policies;
- Strengthening the independence of internal and external audit functions to ensure their effectiveness; and
- Ensuring compliance with all applicable legal, regulatory and accounting requirements.

Audit subcommittees have been formed in all the major operating divisions of the Company. The Group Audit Committee considers reports from these subcommittees at its meetings. The minutes of the subcommittee meetings as well as matters that have not been resolved within set timeframes by the subcommittees are escalated to the Group Audit Committee.

All non-audit services provided by the external auditors and fees payable in that regard are pre-approved by the Audit Committee. The Group Audit Committee meets with the external and Internal Auditors without the presence of management to discuss issues that they consider prudent to raise in the absence of management.

The Audit Committee is satisfied that the independence of the internal and external auditors has not been compromised in any way.

Schedule of attendance at Audit Committee meetings

Director	19 Apr 2006	14 Jun 2006	22 Nov 2006	2 Feb 2007
Prof GK Everingham (Chairman)	√	√	√	√
Dr I Abedian	A	√	A	√
Ms NNA Matyumza	√	√	√	*
Mr S Nicolaou	√	A	A	√
Mr PG Joubert	√	√	√	√
Ms KC Ramon	A	√	√	√

√ = Present
A = Apologies
* = Not a member

Remuneration Committee

Members: Dr SE Jonah, KBE (Chairman), Ms NBP Gcaba (Deputy Chairman), Dr I Abedian, Mr PG Joubert and Ms NR Ntshingila

The purpose of the Remuneration Committee is, amongst others to, carry out the following functions:

- Ensure that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels in support of realising corporate objectives and to safeguard shareholder interests;
- Review the design and management of salary structures, policies and incentive schemes and to ensure that they motivate sustained high performance and are linked to corporate performance;
- Develop and implement a policy of remuneration philosophy for disclosure to enable a reasonable assessment of reward practices and governance processes to be made by stakeholders; and
- Propose the level of non-executive Directors' fees to the Board which, in its turn, makes recommendations to the shareholder.

All the members of the Remuneration Committee are non-executive Directors. Ms Gcaba was appointed as the Deputy Chairman and Ms Ntshingila as a committee member with effect from 30 June 2006.

Schedule of attendance at Remuneration Committee meetings

Director	13 Apr 2006	3 Jul 2006	7 Dec 2006	26 Feb 2007
Dr SE Jonah (Chairman)	√	√	A	√
Dr I Abedian	√	√	√	√
Mr PG Joubert	√	√	√	√
Ms NB P Ngcaba	*	√	√	√
Ms NR Ntshingila	*	A	A	√

√ = Present
A = Apologies
* = Not a member

The Remuneration Committee approved the remuneration philosophy of the Company, which includes long- and short-term performance incentive schemes.

Further details on remuneration information are disclosed in the Report of Directors on pages 146 to 150.

Corporate Governance and Nominations Committee

Members: Mr FTM Phaswana (Chairman), Ms NBP Gcaba, Prof GK Everingham and Mr BT Ngcuka

The role of the committee is to ensure that the Board's composition and structure enables it to fulfil its obligations as set out in the Board mandate and to advance and maintain the Group's corporate governance policies.

The committee is also responsible for reviewing the succession plans of the Board collectively, the executive Directors and members of the Group Executive Committee.

The committee ensures that the performance of the Board and committees is assessed annually and determines the form of the evaluation process and action plans arising out of the evaluation report.

Schedule of attendance at Corporate Governance and Nominations Committee meetings

Director	11 Apr 2006	28 Jun 2006	15 Sep 2006	27 Nov 2006	29 Jan 2006	29 Mar 2007
Mr F TM Phaswana (Chairman)	√	√	√	√	√	√
Prof GK Everingham	√	√	√	√	√	√
Ms NBP Gcaba	√	√	√	√	A	√
Mr BT Ngcuka	A	√	√	√	√	A

√= Present
A = Apologies

"One of the highlights of the year, from a corporate governance perspective, was the signing of the Shareholder Compact between the Transnet and Government"

SHAREHOLDER COMPACT

One of the highlights of the year, from a corporate governance perspective, was the signing of the Shareholder Compact between Transnet and Government.

The Shareholder Compact confirms Transnet's mandate, the strategic objectives to be attained as well as the key performance areas (KPAs) and key performance indicators (KPIs) to measure the Company's performance during the period of the Shareholder Compact. The KPAs include capital and financial efficiency as well as infrastructure investments. The targets set are measured quarterly and are reported quarterly to the shareholder.

CODE OF ETHICS

The Board members and employees of Transnet are subject to Codes of Ethics for Directors and employees, respectively.

The Transnet Code of Ethics provides the basic principles that must guide all employees and other stakeholders in conducting business with the Company.

It is a requirement that all Transnet employees sign an acknowledgement that they have read and understood the contents of the code and that contravention of the basic standards set therein results in disciplinary action, including dismissal. By signing the code, employees further consent to Transnet publishing any contravention and alerting any person who employs them, on their departure from Transnet, of such contravention.

During the year, the Internal Auditors were tasked to follow up and verify that the code has been signed by all employees. In instances where there has been failure to comply, reports have been submitted to the Group Executive Committee as well as to the Group Audit Committee.

The Company also put in place an independently operated whistle-blowing mechanism. Reports on matters that have been reported through this mechanism and the progress of investigations in respect of such matters are reported to the Group Audit Committee by the Internal Auditors. The Tip-Offs Anonymous number used by the Company for reporting of incidences of fraud and corruption is 0800 003 056 or email address Transnet@tip-offs.com.

Once the calls are received, investigations are carried out by the Company's Internal Auditors. Depending on the nature of allegations, some matters have been reported to the appropriate law enforcement agencies, including the South African Police Service and the Directorate of Special Operations (otherwise known as the Scorpions). During the year, disciplinary processes were instituted against 58 employees in the operating divisions, 36 of these matters have been finalised. Of the 36 finalised disciplinary actions, 15 employees have been dismissed, one demoted, 12 received final written warnings and eight employees resigned before finalising any disciplinary action. In addition to the disciplinary action taken, Transnet laid criminal charges against 25 employees, 22 of these cases are currently pending in the courts and three were found guilty. Furthermore, civil action was brought against three employees and the matters are currently pending finalisation.

Further, fraud awareness training is under way throughout the organisation to assist in curbing incidents of fraud and encourage the use of the fraud reporting line.

Ernst & Young, Transnet Internal Auditors, recently issued their report on the corporate governance audit and have, amongst others, indicated that *"Agendas, minutes and mandates were reviewed and were found to be consistent and effective … The Board Governance Structures are consistent with the requirements of the PFMA and King II and with an organisation of this size and complexity of Transnet. Based on the audit these governance structures are operating effectively."* On the management governance structures, the Internal Auditors have gone as far as stating, that *"The Internal Control Committee represents leading practice."*

INTRODUCTION

The overall risk management philosophy of Transnet is that it is not in the business of proprietary risk taking and will therefore, to the extent possible, avoid undue risks. However, given the nature of Transnet's business and its major capital investment programme, it is not always possible to avoid risk. Transnet accepts, reduces or transfers risks (particularly financial risks) provided that the residual exposure accepted is within the risk appetite or tolerance limits of Transnet as determined by the Board of Directors from time to time. Integral to Transnet's risk management philosophy and process, is the Enterprise-wide Risk Management (ERM) Framework which was developed and approved by the Transnet Board of Directors.

ERM FRAMEWORK

The ERM Framework follows a holistic approach to risk and opportunity and details a strategy to achieve the overall Group objectives. It is aligned to King II, the committee of Sponsoring Organisations of the Treadway Commission (COSO), the PFMA and other regulatory requirements. All operating divisions are subject to the framework.

The ERM Framework informs the risk management process of Transnet in respect of, amongst others, the risk management procedures and guidelines, the determination of risk management standards, corporate planning and implementation. This is to ensure that

- Transnet's risk universe is properly surveyed;
- The Board and management have an integrated view and focus on the risks facing Transnet and on the management or mitigation thereof;
- The roles and responsibilities of various risk management structures are continually reviewed to ensure that they remain relevant to Transnet's risk management strategic objectives; and
- There is risk management performance measurement and appropriate controls.

All risks are managed in a structured and systematic way, which is aligned to the ERM Framework and corporate governance responsibilities. ERM is being embedded in the Group's business systems and processes, to ensure that responses to risks remain current and dynamic.

Through the application of the ERM Framework Transnet:

- Aligns risk appetite and strategy: Transnet management considers the Group's and operating divisions' risk appetite, as determined by the Board, in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- Enhances risk response decisions: Management gains the rigour to identify and select, amongst alternatives, risk responses – such as risk avoidance, reduction, sharing, and acceptance.
- Reduces operational surprises and losses: Transnet gains enhanced capability to identify potential events and establish responses, reducing surprises and associated costs or losses.
- Identifies and manages multiple and cross-enterprise risks: Transnet identifies risks and facilitates effective and integrated responses to the interrelated impacts.
- Seizes opportunities: By considering a full range of potential events, Transnet management is positioned to identify and proactively realise or capitalise on opportunities.
- Improves deployment of capital: Obtaining robust risk information allows Transnet's management to assess overall capital needs effectively and to enhance capital allocation decisions.
- Ensures compliance with laws, rules and standards: Transnet management ensures the effective reporting of risks and compliance with laws, rules and standards and seeks to avoid damage to Transnet's reputation and associated consequences.
- Increases probability of achieving objectives: Management ensures that Transnet's performance and profitability targets are

"All risks are managed in a structured and systematic approach"

achieved and prevents loss of resources. Controls and risk interventions are chosen on the basis of increasing the likelihood that business will fulfil its intentions to stakeholders.

- Protects the Company's resources: Management is focused on the protection of the scarce resources of the Company, be it capital, physical assets, human assets, market share, etc.

The ERM Framework is a dynamic process which is reviewed on an annual basis by the Board of Directors or as the circumstances dictate, in consultation with the relevant stakeholders.

RISK GOVERNANCE STRUCTURES

Risk management is, as set out in King II, COSO and the PFMA, ultimately the responsibility of the Board of Directors of Transnet. Previously, the Group Audit Committee had responsibility for the Board's governance oversight of risk management in the Group. However, when the Board approved the ERM Framework it reviewed the efficacy of this governance arrangement and determined that there be a separate Board Committee focusing on risk management, hence the newly established Group Risk Committee (Group RiskCo) chaired by non-executive Director, Mr Peter Joubert.

Group Risk Management Committee

The strategic operational focus on risk management is the responsibility of the Group Risk Management Committee, a subcommittee of the Group Executive Committee (Group Exco). The Group Risk Management Committee is chaired by the Group Chief Executive to emphasise the primacy we give to managing our risk management responsibilities. It comprises the Group Chief Financial Officer, the Group Chief Operating Officer, the Group Executive: Office of the Group Chief Executive, the Group Executive: Human Resources, the Group Treasurer and the Group Chief Risk Officer as its members. The General Managers: Group Risk Management and Group Compliance are in attendance.

Group Internal Control Committee

The Group Internal Control Committee (ICC), a sub-committee of the Transnet Executive Committee and Audit Committee, has been operating effectively during the year. This committee, chaired by the Group Chief Financial Officer, together with the Chief Operating Officer and the Group Executive: Office of the Chief Executive, monitors the effectiveness of the financial controls and facilitates the enhancement of Transnet's control environment. The committee ensures that the internal audit function is aligned to the strategic goals of Transnet. In doing this it has developed a five-year internal audit maturity model, with the ultimate vision of achieving a world-class internal control environment. Significant work has already been done in understanding the components of the model and aligning the approach to internal audit with the longer-term vision; this is evident from the introduction of internal control monitoring and control self assessment.

The committee's main responsibilities are:

- Acting as a channel and governance committee within Transnet for all internal audit reports, forensic reports and related issues and other reports relating to financial improvement projects undertaken to enhance Transnet's control environment;
- Ensuring that satisfactory progress is being made to address control-related issues. In particular, the committee considers the adequacy of management's action plans to address control weaknesses, the speed at which actions are being implemented, whether or not the appropriate results are being achieved and whether or not sufficient resources are being allocated to achieve the required results;
- Guiding and directing Internal Audit through the development of the one-year operational and three-year strategic internal audit plans which cover all areas of focus including internal audit, forensic as well and enhancement activities; and

- Reviewing the outcome of PFMA compliance assessments and managing compliance with the Act.

The committee's vision of achieving a world-class internal control environment is firmly entrenched in Transnet's four-point turnaround strategy.

Asset and Liability Management Committee

There is an Asset and Liability Management Committee (ALCO) chaired by the Group Chief Financial Officer, whose members include the Group Chief Executive, the Group Chief Operating Officer, the Group Treasurer, the Group Executive: Human Resources, the Group Executive: Office of the Group Chief Executive, the Group Chief Risk Officer, the General Manager: Group Financial Planning and the General Manager: Group Tax.

The purpose of ALCO is to ensure that Transnet's approach to asset and liability management is always governed by prudence, the regulatory environment in which the Company operates, global leading practice and the competitive space within which the Group operates. ALCO is responsible for managing financial risk. To ensure this, ALCO:

- Utilises a comprehensive risk management process that facilitates the effective identification, measurement, monitoring and control of interest rate, foreign exchange, price and liquidity risk exposures within prudent levels; and
- Ensures that appropriate asset and liability management frameworks, policies and procedures are implemented in the Group.

Group Risk Management structure

The Group Risk function, which is headed by the Group Chief Risk Officer and which includes, amongst others, the General Manager: Group Risk Management, the General Manager: Group Compliance, the Manager: Group Operational Risks, the Manager: Group SHEQ Risks, the Strategic Specialist: Risk Financing and the Head: Group Security, is tasked with the day-to-day risk management and corporate governance responsibilities.

Divisional Risk Management Committees

Operating divisions' Risk Management Committees are chaired by the relevant Chief Executives or Chief Executive designates. The operating divisions' Risk Management Committees are responsible for, amongst others, the following:

- Formulating, promoting and reviewing the operating divisions' ERM and compliance objectives, strategies and policies, in alignment with Group directives and monitoring the ERM process at strategic, management and operational levels; and
- Ensuring the implementation of risk management structures and processes in line with the ERM and compliance frameworks, and to ensure optimal effectiveness of the ERM and compliance processes in the operating divisions, including the prudent management of the operating divisions' assets and liabilities.

THE ERM PROCESS

A procedure manual was developed and approved by the Group Risk Management Committee to assist in ensuring the successful implementation and embedding of ERM.

The ERM methodology of Transnet consists of the following interrelated components, which are derived from ERM global leading practice:

- Risk governance;
- Risk identification;
- Risk assessment;
- Risk control and response;
- Risk monitoring and reporting; and
- Performance measurement.

MAJOR RISKS

As described above, a risk identification process is undertaken by each operating division and functional area on an annual basis to assess the risks that will impact on the business. Some of the major risks currently facing the Group include the following:

- Regulatory risks;
- Risks relating to efficient asset performance;

"Significant progress has been made in embedding a culture of risk management throughout Transnet over the last year"

- Human resources risks;
- Risk that current infrastructure capacity does not meet customer demands, taking into account the country's and global economic growth;
- Under-investment in rolling stock;
- The risk of events that result in business interruption;
- Operational safety risk; and
- The risk of capital projects not delivered on time.

BUSINESS CONTINUITY MANAGEMENT

One of the past year's Risk Management Policy (RMP) key focus areas was disaster recovery and business continuity management (BCM). This will continue for the next year. The aim is to extend the concept of crisis management and emergency planning into a full BCM system to be applied throughout Transnet. Working together with the operating divisions, Transnet is, as part of its operational risk management focus, applying appropriate plans for each of the risk categories for use by the line function areas. An enterprise risk-based Operational Risk Management Policy, as well as a BCM Policy is applied across the operating divisions and Group. These policies are in accordance with global leading practices. The Company also has a global leading practice BCM high level standard, which provides guidance to the operating divisions in implementing the BCM Policy.

COMPLIANCE

During the previous year a Group Compliance function was established to assist management to discharge their responsibilities to comply with applicable laws, rules and standards. The Board of Directors approved the Group Compliance Policy and the compliance high-level standards, included in the Group compliance manual, which encapsulate Transnet's conceptual framework for compliance. Group Compliance has implemented a risk-based approach to compliance risk management which is intended to encourage the development of a fully effective compliance function over a three-year planning period. The compliance risk methodology and risk models are aligned to the ERM Framework and processes.

RISK-BASED INTERNAL AUDIT

Transnet Internal Audit is an integral part of Transnet's ERM focus. A key focus of Internal Audit is to assist management in enhancing Transnet's internal control environment.

Internal Audit's assurance coverage, focuses on key business risks that are critical to the achievement of the corporate strategy; major initiatives required to implement the four-point turnaround strategy; core controls to achieve key control objectives from a financial, compliance and operational perspective. This includes the PFMA and compliance with laws, rules and standards.

CONCLUSION

The ERM strategies, processes, frameworks and initiatives which underpin the Risk Management Plan have been set out above. As indicated, in accordance with King II, COSO and the PFMA, the Board of Directors has ultimate responsibility for ensuring that there is a robust risk management process at Transnet. In executing this responsibility, the Board of Directors continuously reviews the Risk Management Plan to ensure that it helps Transnet meet its strategic objectives. Significant progress has been made in embedding a culture of risk management throughout Transnet over the last year.

Transnet Freight Rail has consistently set new records in coal delivery to the privately-owned Richards Bay coal terminal, thanks to the Vulindlela reengineering initiative

SUSTAINABILITY

ABOUT THIS REPORT

This Annual Report presents Transnet's operating and financial performance for the year ending 31 March 2007. It integrates sustainability outcomes of interest to Transnet's stakeholders as part of the main report. These include broad economic, social and environmental performance and overarching corporate governance outcomes.

Whilst this sustainability report presents a consolidated review of value created for the Company's stakeholders, the operational reports (pages 80 to 137) cover the operation-specific management and performance disclosures for the main operating divisions forming part of the Company's continuing operations.

The report is aligned to the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines, which outline the principles for defining report content and ensure the quality of reported information.

TOWARDS MATURITY OF THE TRANSNET SUSTAINABILITY PLATFORM

Embedding a culture of value measurement

Transnet's sustainability performance is inextricably linked to its corporate governance practices. It is for this reason that the Corporate Governance and Nominations Committee of the Transnet Board of Directors has strategic oversight of the sustainability focus of the Company.

Building on the foundation of the previous year, the Sustainability Platform project focused on creating the Transnet Value Measurement Framework (TVMF) to strengthen the accountability chain and to measure Transnet-specific sustainability performance across the business. This framework recognises the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines as a global benchmark and also takes into account the unique South African business landscape.

Transnet is accountable to its stakeholders for sustainable decision-making processes, which integrate principles of economic prosperity, social equity and environmental quality. To deliver on this commitment, the Company is embedding a culture of sustainability by integrating sustainability management into its strategies, accounting and reporting processes as well as in its internal and external assurance practices.

TRANSNET VALUE MEASUREMENT FRAMEWORK

The seven principles of the TVMF shown in the model above were carefully selected to cover the interests of Transnet's diverse stakeholders. It also provides the outline for this sustainability report and the operational reports.

‘Transnet is integrating sustainability management into its strategies . . .’

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

Raising the bar on corporate governance

As part of the Company’s strategic objective of raising the bar on corporate governance, the Board adopted a holistic focus on the sustainability of the Company, its accountability and governance. This focus is consistent with the requirements of benchmarks such as the King II Code on Corporate Governance and the Global Reporting Initiative (GRI G3).

Our holistic approach to Board accountability

Board governance Giving an overview of the responsibilities and fiduciary duties of the Board of Directors in directing and controlling the Company in the pursuit of its strategic objectives.	**Executive management** Defining the purpose and highlighting the challenges in managing Transnet in a proper and lawful way.	**Strategy and transformation** Highlighting Transnet’s actions to transform the business into a focused freight transport company.	**Ethical culture** Sharing the values by which Transnet operates disclosing our actions to manage the fraud risk to which the Company is exposed.
Enterprise risk management Disclosing Transnet’s risk management framework which informs the Company’s risk management process and its implementation.	**Compliance management** Acknowledging the laws, rules and standards governing our actions and disclosing Transnet’s compliance to these and to the requirements of the Company’s regulators and supervisors.	**Legal management** Giving the context of Transnet’s legal status as a State-owned enterprise in South Africa.	**Assurance management** Giving assurance through disclosure of Transnet’s internal and external control environment.
Business intelligence Sharing information on Transnet’s business processes for collecting and analysing business information in a credible and consistent way.	**Sustainability Platform** Reporting progress on Transnet’s holistic approach designed to integrate sustainability issues into the way the business operates.	**Communication and reporting** Communicating Transnet’s performance in a clear and transparent way.	**Stakeholder engagement** Acknowledging the Transnet stakeholders and disclosing the Company’s actions to seek mutually beneficial relationships.

Governance disclosure relating to the above framework is addressed in the Chairman’s statement, the Group Chief Executive’s review, the Corporate Governance report and the Report of Directors that form part of this Annual Report.

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

Delivering on our commitments in a transparent, inclusive and accountable way

Stakeholder engagement is central to the success of Transnet's four-point turnaround strategy. The Company continuously seeks to engage in collaborative working relationships with its diverse stakeholders. The Group Executive: Office of the Group Chief Executive is responsible for coordinating engagements with key stakeholders. During the year, an enterprise-wide process was launched through the Sustainability Platform to better understand the needs and expectations of Transnet's stakeholders. The Company developed the Transnet Stakeholder Matrix which maps its stakeholders and the issues material to them. It also guides the way forward in creating value aligned to stakeholder needs and expectations:

TRANSNET STAKEHOLDER MATRIX

TRANSNET VALUE MEASUREMENT FRAMEWORK		Key stakeholders	Interface with Transnet and
Sustainability principles aimed at creating stakeholder value	**The principal issues identified as material concerns to stakeholders**	Shareholder and other State-owned enterprises	Regulators and other Governmental agencies
Assuring sound accountability and governance	**Board governance** **Executive management** **Strategy and transformation** **Ethical culture** **Enterprise risk management** **Compliance management** **Legal management** **Assurance management** **Business intelligence** **Sustainability platform** **Communication** **Reporting**	Transnet's shareholder, the Government of the Republic of South Africa, as represented by the Minister of Public Enterprises (the shareholder minister) requires the Board and management of the Company to carry out their duties and responsibilities in a manner that is consistent with principles of sound corporate governance and a vigilant risk management focus. The Corporate Plan that the Company provides to the shareholder minister prior to the commencement of each financial year includes a risk management plan and fraud prevention plan for the Company. There are regular meetings with the shareholder minister and officials of his department which are mutually enriching. The shareholder minister is always available to engage with the Transnet Board at its strategy sessions and attends the Company's Annual General Meeting. Further, the Chairman and the GCE are members of the shareholder minister's Chairmen and Chief Executive Officers' forum which provides interaction on strategic issues identified by the shareholder minister and respective Chairmen and CEOs of State-owned enterprises. There are other forums of the shareholder minister's department that cover issues such as finance, risk and governance in which executives of Transnet participate. Through the Shareholder Compact the Company and the shareholder minister agree performance targets. In addition there are quarterly, interim and annual reports of the Company's performance.	Compliance with all applicable laws, rules and standards and adherence to the requirements of regulators and supervisors are central to Transnet's broader corporate governance and enterprise risk management. Guided by the Group Compliance Manual and Policy, and high level standards, Transnet seeks to maintain a constructive and transparent working relationship with all regulators and other Government agencies. To enrich such interactions with the Regulators, a Public Policy and Regulation Unit has been established in the Office of the Group Chief Executive.
Achieving returns greater than the cost of capital	**Financial management** **Marketplace and customer management** **Operations management** **Supply management and BBBEE**	The shareholder seeks an appropriate return on investment. Key performance indicators (KPIs) have been agreed upon with the shareholder and are contained in the Shareholder Compact. Target values are set for each KPI and are contained in the annual Corporate Plans.	In the Company's everyday financial, marketplace and supply management compliance to amongst others, International Financial Reporting Standards; the Broad-Based Black Economic Empowerment Act; the Competition Act; and the Auditing Profession Act are central.

Transnet's response to their needs

Customers	Suppliers	Employees and labour unions	The public, financiers and media	Communities
Continued growth of the Company's market is inextricably linked to the needs and expectations of its customers. To them, improved service delivery will be the key measure of the success of Transnet's turnaround strategy. Engaging customers to better understand their unique needs takes various forms, which include: • Meetings of the Group Chief Executive and other relevant Group Executive Committee members with various customers; • Operating divisions CEO roadshows; • Customer satisfaction feedback/reports; • Engagement meetings; and • Fact sheets, pamphlets and newsletters.	To suppliers BBBEE governance, ethical conduct and contract management are key concerns. Transnet communicates with them on these issues through, amongst others: • The media; • Transnet Acquisition Council communication; • BEE forums; • Publications; • Site visits; and • Stakeholder engagement meetings.	Transnet's people and organised labour need to be assured of the proper governance and ethical transformation and management of the business. Value-adding communication tools used in the Company's daily interaction with its people and their representatives include: • Strategic Leadership Forum meetings; • Internet/intranet; • Newsletters; and • Letters from the GCE.	The South African public, Transnet's financiers, bond holders, credit rating agencies and the media are particularly focused on the Company's ability to deliver on its commitments as set out in its turnaround strategy. Transnet interacts with these stakeholders through: • Press conferences; • One-on-one interviews; • Roadshows; and • Media breakfasts.	The business has an impact on the communities where it operates. Transnet strives to demonstrate to communities that the Company values principles of. accountability. Transnet seeks engagement with such communities through, amongst others: • Partnerships; and • Awareness campaigns.
Through improving its operational efficiency Transnet seeks to provide its customers with a reliable service and to establish value creating growth opportunities for its suppliers. It does this through sustainable partnerships, memoranda of understanding and leveraging economies of scale.	The Company's suppliers expect procurement systems that are ethical, efficient and transparent. At Transnet preferential procurement is a business imperative.	Solid financial performance, a stable marketplace and operational efficiency create the foundation for a workplace where the Company balances performance and reward.	Transnet's brand value is greatly determined by public perception. The key to its success therefore lies firmly in its ability to achieve sound financial returns, secure its market share, enhance operational efficiency improvements and strengthen its supply chain management.	Mutually beneficial co-existence depends on the Company's business sustainability. Transnet will engage in enterprise development initiatives, as part of its adoption of the BBBEE Codes of Good Practices.

TRANSNET STAKEHOLDER MATRIX — TRANSNET VALUE MEASUREMENT FRAMEWORK		Key stakeholders	Interface with Transnet and
Sustainability principles aimed at creating stakeholder value	**The principal issues identified as material concerns to stakeholders**	Shareholder and other State-owned enterprises	Regulators and supervisors
Developing world-class infrastructure	**Rail, port and pipeline infrastructure** **Information and communication technology**	Infrastructure investment is one of the KPIs identified in the Shareholder Compact. This translates into greater emphasis on the implementation of Transnet's major capital investment programmes and maintenance plan. Dashboard reports on progress with major projects are presented to the shareholder minister at the Chairmen's and CEOs' forum meetings.	In its infrastructure development, Transnet strives to comply with a host of legislation and regulatory enhancements inclusive of environmental laws and other legislation.
Creating a workplace where our people can excel	**People management** Change, transformation and culture Employment equity Skills development Talent management Performance and reward Productivity and efficiency Human resource enablement Employee relations **Employee wellness and HIV/Aids** **Employee safety**	In line with the shareholder's policies, Transnet seeks to create an organisation that is reflective of the diversity of South African society and which contributes to maximising the human resources potential of its people. Transnet shares and continues to participate in the shareholder's developmental initiatives such as the Joint Initiative on Priority Skills Acquisition (Jipsa) and the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). Transnet regards the acquisition and retention of critical skills as central to the success of the turnaround strategy.	Transnet's human capital management is governed by compliance to amongst others, the Occupational Health and Safety Act; the Compensation for Occupational Injuries and Diseases Act; the Basic Conditions of Employment Act; the Skills Development Act; the Employment Equity Act; the Labour Relations Act; and the Promotion of Equality and Prevention of Unfair Discrimination Act.
Caring for the communities where we operate	**Corporate social investment** **Community impact and public health and safety**	Apart from Transnet's corporate social investment projects carried out through the Transnet Foundation and the operating divisions, the Shareholder Compact outlines the process to be followed by the parties in setting joint non-commercial developmental socio-economic objectives for each year.	In its interactions with society, Transnet seeks compliance with relevant laws including the Broad-Based Black Economic Empowerment Act; and the Prevention of Illegal Eviction from and Unlawful Occupation of Land Act.
Managing our environment responsibly	**Environmental management** **Environmental performance**	Compliance with all legislation relating to the environmental impact of the Company's operations forms part of the governance focus.	The Company strives to ensure compliance with all environmental legislation which impacts on its port, rail and pipeline operations eg: National Environmental Management Act and Marine pollution legislation.

Transnet's response to their needs

Customers	Suppliers	Employees and Labour Unions	The public, financiers and media	Communities
Delivering on its customer-oriented approach, Transnet seeks to ensure that the necessary infrastructure capacity is delivered ahead of demand. There is interaction with key customers on progress with regard to implementation.	Information and communication infrastructure provides the vehicle for data integrity and embedding of a control framework within the Company's procurement and payment processes.	Through the Company's enhanced infrastructure and skills development programmes Transnet employees will be better placed to deliver the operational efficiency improvement to its customers.	As a State-owned enterprise that is the custodian of rail, port and pipeline infrastructure of South Africa, Transnet is committed to earning returns that are commensurate with its infrastructure investments.	Planning for the implementation of Transnet's infrastructure programme includes engagements with the communities closest to the Company's operations to understand any environmental concerns they may have on such projects or any perceptions on the environmental impact thereof and to address them accordingly.
Transnet's customers are constantly taking note of the Company's ability to secure a stable marketplace enabled by a suitably skilled, motivated and productive workforce.	Healthy relations between Transnet's staff and suppliers form the back-bone of proficient service delivery.	Transnet is dedicated to the revitalising of its human capital, thus providing its people with a sustainable business and an employer of choice. The Company constantly seeks to establish opportunities for career advancement, and provides bursaries and other skills development programmes to its employees. The safety of Transnet employees is of paramount importance and stringent SHEQ management is central to the ERM framework.	Transnet values the importance of the investment in a sound working relationship with its employees and labour unions. Organised labour is an integral component of a well-managed and progressive organisation and the Company is dedicated to building its working relationship based on mutual trust and respect. The Company has also been extending bursaries to engineering students to ensure that it can draw from an enlarged pool for its critical skills resource needs.	The extended families of Transnet's employees are dependent not only on the livelihood provided by job security, but also on the extended roll-out of its employee wellness and HIV/Aids programmes.
Prospective and current customers also seek best practice in social conduct when entering in a business relationship.	The economic development of Transnet's suppliers as well as their safety management ability are key focus areas of the Company's supply chain management.	Transnet employees are dependent on job security, fair remuneration and career advancement opportunities to fulfil their responsibilities to society.	The South African public's perception of Transnet as a good corporate citizen is largely influenced by its response to social issues.	To support the communities impacted by Transnet operations, the Company is improving the integration of strategic CSI, as well as rolling out a pro-active safety awareness campaign.
Best practice in environmental management builds trust in the Company's business relationships.	In its relationship with its suppliers, Transnet can play a crucial empowerment role in environmental awareness and conduct.	Being an employer of choice also implies instilling a culture of accountability for the environment which the Company impacts on through its operations.	The perception of Transnet as a good corporate citizen is further influenced by its responsible management of environmental issues.	Transnet shares the communities' responsibility for the environment which its operations affect.

ACHIEVING RETURNS GREATER THAN THE COST OF CAPITAL

Financial management

Transnet's key role, namely to assist in lowering the cost of doing business in South Africa, whilst providing cost-effective and efficient port, rail and pipeline infrastructure and operations, remains a key pillar of sustainability for the Company.

During the year, sustained financial performance underpinned Transnet's transformation into a more focused and a more efficient freight business as outlined in the Chief Financial Officer's report from page 42.

Marketplace and customer management

During the year, management focused on the delivery of a reliable and efficient service to all Transnet customers whilst increasing market share. In line with Transnet's commitment to being a customer-focused organisation, greater focus is being given to customer relationship management at Group and operating division levels.

In the year ahead, Transnet will build on this foundation of improved efficiency. In addition, targeted relationship building initiatives will further enhance customer satisfaction and retention, and in so doing, encourage positive market and customer feedback.

In support of the national imperative of promoting South Africa as a favourable investment destination, Transnet is placing specific emphasis on 'red carpet' customer relations and conveying the message of 'value-based business' to ensure:

- That freight shifts from road to rail;
- The lowering of the cost of doing business; and
- The improvement of freight transportation's impact on the environment.

Operations management

Central to Transnet's turnaround strategy is the redirection and reengineering of the business to improve efficiencies and effectiveness of core operating divisions.

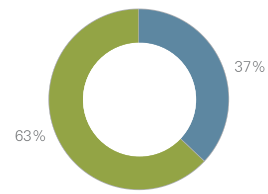
The Vulindlela programme drives sustainable improvements in operational efficiency, cost savings and customer service processes. The initiative is also focused on change management and developing a performance culture.

Vulindlela comprises a number of programmes across all divisions with a major focus on Freight Rail. It has played a fundamental role in improving the alignment and communication between different functions and operational areas. Strong programme management offices established at Transnet and within the operating divisions ensure compliance with comprehensively defined policies and processes. The programme is supported by strict corporate governance, with the executives of the Company being accountable for regularly reviewing the programmes to ensure sustainability and success.

Since its inception in August 2005, Vulindlela has met its annual and recurring financial targets and has instilled continued improvement in operational areas. Long-term sustainability is ensured by combining operational and performance levers with organisational health elements, including human capital development and performance culture programmes. Priority management skills are also being rolled out through a structured coaching and mentoring programme.

During the year, Vulindlela's positive financial contribution accelerated sharply, with a significant impact on Transnet's overall performance. Substantial improvements in operational key performance indicators (KPIs) are evident in most areas where Vulindlela priority programmes are under way. Vulindlela has also made a strong contribution to Transnet-wide capability building programmes as well as change management and performance culture initiatives.

In the year ahead, Vulindlela will yield structured plans to build upon and increase Transnet's already improved financial and operational performance as well as organisational health.



2007 BEE procurement*

BEE procurement	R3,9 billion
Non-BEE procurement	R6,7 billion

Supply management and BBBEE

Transnet supply management will, through professional delivery of services, play a pivotal role in the economic growth of South Africa. In addition to its day-to-day operational expenditure, Transnet faces a unique challenge in disbursing a capital budget of R78,9 billion over the next five years on major and minor projects. The major projects include extensive upgrades to the port in Durban and to rail lines.

To meet this and other management challenges, Supply Management has embarked on a journey to achieve the following sustainable business impacts:

- Fair and transparent dealings with providers of goods and services;
- The prevention of fruitless and wasteful expenditure;
- Delivery of effective and efficient supply management processes;
- Sustainable cost savings; and
- The development of globally competitive local suppliers.

To achieve these goals, Transnet supply management will embark on several value-driven initiatives:

Firstly, by focusing on strategic sourcing (the analysis and purchase of commodities aimed at reducing the total cost of ownership) Transnet can ensure the best overall supplier transactions for goods and services. The Company has set a three-year savings target of R1,6 billion of which it achieved R552 million in the first year.

Secondly, in addition to securing the best value from its suppliers, the Company is setting up mechanisms to improve supply chain processes, particularly for enabling the use and application of contracts and preventing off-contract purchases.

This necessitates that appropriate controls and governance are embedded in the business. Project Shape Up guides the Company in meeting its objectives of fair and transparent dealings with the public, as it ensures that basic and fundamental processes are adhered to. Transnet has aligned its policies and procedures as far as possible to meet rigid standards of acceptable practices so as to achieve and support all Governmental initiatives and compliance with for example the PFMA, IFRS and supply management leading practices.

Thirdly, Transnet will implement the Competitive Supplier Development Policy in conjunction with its shareholder (the Department of Public Enterprises) by structuring a Supplier Development Plan (SDP). The plan will consider opportunities to develop globally competitive local suppliers through various strategic initiatives forming part of Transnet's support for the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). This is in addition to the Company's overall compliance with the regulated requirements of BBBEE and enterprise development.

Fourthly, central to meeting Transnet's strategic objectives is the enablement of its people through the standardisation of roles and remuneration, professional development, talent management and succession planning. A key initiative in achieving this enablement is the establishment of an e-learning academy in partnership with two professional institutes, namely IPSA (Institute of Purchasing and Supply of South Africa) and CIPS (Chartered Institute of Purchasing and Supply) of the United Kingdom.

Finally, Transnet is in the process of implementing the new measurement methodology prescribed by the Department of Trade and Industry (DTI) in terms of its Code of Good Practice (CoGP) 500 on preferential procurement. During the year Transnet has obtained independent certificates from verification agencies verifying the BEE contribution levels of most of its high-value suppliers. The full roll-out of preferential procurement measurement in terms of CoGP 500 will be in place by the end of the next year.

During the year Transnet's core divisions spent R10,6 billion externally with suppliers, of which R3,9 billion went to broad-based BEE companies, up R0,6 billion from 2006.

* Based on discretionary procurement spend. Discretionary spend refers to the portion of total procurement where the Company has the option to determine whether goods and services can be procured from a supplier. This figure is arrived at after deducting non-discretionary procurement eg imports and other items provided by monopoly suppliers eg water, electricity, telephone.

Construction work being performed at Durban's Pier 1 Container Terminal.

DEVELOPING WORLD-CLASS INFRASTRUCTURE

The provision, maintenance and replacement of world-class infrastructure technology – both in Transnet's capital projects and in terms of its information and communications technology – remain key enablers of the business.

Rail, port and pipeline infrastructure

In view of Transnet's substantial five-year capital investment plan, the Board approved the establishment of a central capital projects team.

Transnet Projects is accountable to:

- Ensure the successful delivery of Transnet's infrastructure programme of major projects;
- Implement a project management approach benchmarked to world best practice to ensure that projects are delivered on time, within budget and meet business specifications; and
- Ensure skills and technology transfer within the Group.

With engineering skills at a premium worldwide, Transnet has entered into a partnership with a consortium of engineering, procurement and construction management companies Hatch, Matt MacDonald and Goba. Through this partnership, Transnet is assured of access to a requisite number of professional engineers from local and international bases.

In addition, Protekon, responsible for rehabilitation, maintenance and emergency projects, has been merged with Transnet Projects to optimise the utilisation of scarce trained and experienced engineering personnel within the Company.

The Transnet Projects management system controls all facets of major projects during the prefeasibility, feasibility and execution phases and the system is regularly audited.

- A specialist unit has been appointed to manage all Environmental Impact Assessments. This unit has also established successful working forums with stakeholders in areas affected by the investment programme;

- A financial evaluation unit has also been established to ensure that a detailed and consistent financial evaluation procedure is followed in any project evaluation and to ensure the commercial outcome of investments and governing contracts;

- Capital procurement procedures that are aligned to broader Transnet policies and governance. A formal preference system based on the Department of Trade and Industry's BBBEE scorecard, has been introduced as an element of the tender adjudication process. Similarly, where applicable, commitments were obtained from foreign suppliers to adhere to the principles of the National Industrial Participation Programme;

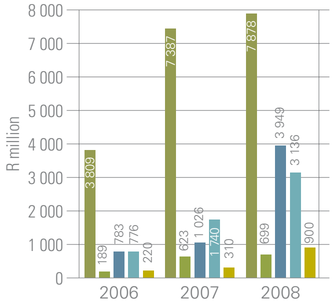
- These supplier commitments are sufficiently flexible to support the objectives of the Department of Public Enterprises's Competitive Supplier Development Programme, to which Transnet has recently committed itself. Construction contracts also place emphasis on utilising local labour; and

- The transfer of training and technology skills is an important objective for Transnet. Instruction courses covering a broad range of project management topics are offered and a number of bursaries are already in effect for the engineering and project management disciplines.

The investment plan was implemented at an accelerated rate during the year. The new structure added significant value in enhancing corporate governance, improving risk management and increasing transparency in the projects.

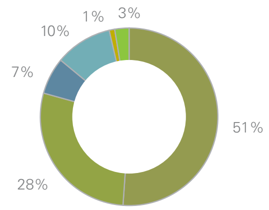
Enhanced maintenance

In addition to the provision of new infrastructure across the rail, port and pipeline network, high performance service delivery also relies strongly on maintenance of the existing infrastructure.



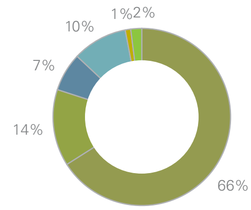
Capital expenditure

- Freight Rail
- Rail Engineering
- National Ports Authority
- Port Terminals
- Pipelines



Permanent employees at Transnet – 2007

- Freight Rail
- Rail Engineering
- National Ports Authority
- Port Terminals
- Pipelines
- Corporate Centre (including Transnet Projects)



Permanent employees at Transnet – 2006

- Freight Rail
- Rail Engineering
- National Ports Authority
- Port Terminals
- Pipelines
- Corporate Centre

During the year the integration of Freight Rail maintenance depots into Rail Engineering, together with the increase in financial resources allocated to major maintenance practices, has facilitated improvements in the availability and reliability of wagons and locomotives.

Information and communications technology

Group Information and Communications Technology (ICT) is focused on the development and implementation of an enterprise-wide ICT strategy. It aims to institutionalise cost-effective automation to ensure that the Group's operational delivery is optimised.

During the year an increased focus on the replacement of operational systems resulted in the Company's ability to phase out legacy technologies in a more timely and efficient manner.

The Transnet Business Intelligence Programme (TBI) is a key enabler in realising stakeholder value. An extensive set of KPIs was developed and enabled in a fully-operational executive dashboard across Transnet. The focus in the year ahead is to ensure the integrity of information and to make information readily available through focused enablement projects.

In the coming year ICT will drive the implementation of TBI into the operating divisions. This is to ensure that the programme forms an integral part of organisational business and management processes.

Key programmes to ensure sustainability include the institution of a network project (Ubambano), a governance framework, an outsource programme and cost-containment initiatives within benchmarked criteria.

To date, ICT has been successful in introducing cost-containment interventions within the Company, thereby reducing ICT costs by 26% over the past two years. The outsource programme has reached the shortlist phase and will be completed within the next year.

CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

Transnet employs 48 578 permanent employees countrywide in its continuing businesses. Management personnel, professional specialists and administrative staff make up 9% of the total staff complement, whilst the remainder are bargaining unit employees. There is a high level of unionisation: 86% of employees are members of four trade unions operating at Transnet.

People management

In 2006, Transnet's Board approved a wide-ranging and far-reaching human resources strategy and plan to transform people management systems, policies and processes in all its operating divisions. Roll-out of the strategy is well under way.

Change, transformation and culture

To ensure successful implementation of the Company's turnaround strategy, a variety of interventions have been implemented to align all levels of leadership with key aspects of the strategy and to ensure leadership participation. Leadership oriented behavioural aspects required for success have been identified and agreed. Annual peer reviews with senior managers will hold them accountable for complying with this behaviour. The Executive Committee also developed a new cultural architecture for Transnet, which will be institutionalised through extensive campaigns.

Employment equity

Transnet is firmly committed to employment equity (EE) and diversity and embraces EE as a coherent and systematic approach to redressing the imbalances of the past. In line with the "One Company, One Vision" philosophy, Transnet is in the process of developing a Group-wide EE plan that provides an overarching framework for implementing EE across the Group. Moreover, it supports Transnet's four-point turnaround strategy and its human resources strategy. The focus is on promoting equal opportunities and fair treatment of employees through the elimination of unfair discrimination and the implementation of affirmative action measures to achieve equitable representation across all occupational categories and levels.

Nontsi Tshazi, the first woman in Africa to be appointed to the position of Harbour Master. She replaces Dennis Mqadi in this position in East London.

Trainees on Durban's Pier 1.

Transnet seeks to create an organisation that reflects the diversity of South African society and that contributes to maximising the human resources potential of all its employees.

Transnet strives to provide individuals with disabilities opportunities to play a more active role in society.

Skills development

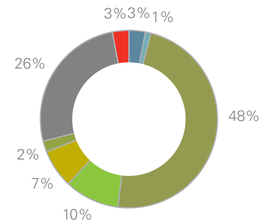
During 2006, Transnet embarked on a skills forecast process through detailed workforce planning to ensure the availability of skills required for the turnaround strategy. The outputs of this process informed the development of skills pipelines to match supply with demand. Skills will be sourced through internal initiatives (including the engineering graduate programme) and external sources (schools, universities, scholarships and bursaries). The progress to date in terms of the identified priority skills for Transnet is as follows:

- In a joint venture between Transnet and Denel, 50 students enrolled in a Youth Foundation and Schools Outreach programme, focusing on mathematics and science;
- Currently Transnet sponsors 176 bursars, in various engineering disciplines at higher-education institutions. Included in this total the Company enrolled 98 additional bursars into the engineering pipeline in 2007. This approach would continue over the next five years, ensuring a steady outflow and absorption in terms of engineering skills required by the organisation;
- Transnet also sponsors 173 students at institutions of technology. This enrolment number for workplace-integrated learning opportunities will gradually increase to reach a target of 300 learner technicians qualifying per annum;
- To address the future need for artisans in Transnet, a total of 1 261 apprentices are undergoing training in different trades. These apprentices are in various stages of training (Phase 1, 2 and 3) spread over a three-year period. Included in this total, Transnet inducted 275 learners during the past year and a further 250 will be sourced during the current year. This approach would continue over the next five years to ensure that the Company secures the necessary skills required; and
- Sequenced delivery plans in respect of identified priority skills in rail movement, marine and port operations have been developed.

	Asian (A)		African (B)		Coloured (C)		Total (Black)		White		Total		Total
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Management	110	323	523	922	121	274	754	1 519	225	1 838	979	3 357	4 336
Non-managerial	182	1 061	4 380	22 419	710	3 205	5 272	26 685	1 282	11 003	6 554	37 688	44 242
Total – 2007	**292**	**1 384**	**4 903**	**23 341**	**831**	**3 479**	**6 026**	**28 204**	**1 507**	**12 841**	**7 533**	**41 045**	**48 578**
	1%	**3%**	**10%**	**48%**	**2%**	**7%**	**13%**	**58%**	**3%**	**26%**	**16%**	**84%**	**100%**
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 – 2006	295	1 381	4 075	22 940	817	3 383	5 187	27 704	1 581	13 021	6 768	40 725	47 493
	1%	3%	9%	48%	2%	7%	12%	58%	3%	27%	15%	85%	100%

F = Female M = Male

Female tug pilot trainee.



Race and gender profile

- Asian male
- Asian female
- African male
- African female
- Coloured male
- Coloured female
- White male
- White female

The year ahead will see the development of competency-based career ladders for priority skills, supported by customised capacity building programmes.

During the year an extensive review of the efficiency and effectiveness of Transnet's training centres was conducted. The outcomes from the review will guide a series of interventions to optimise training delivery in the year ahead.

Skills development	**2007 R million**	2006 R million
Training, bursaries and grants	**219**	180
% of payroll costs	**2,4**	2,1

Transnet's expenditure on skills development compares favourably with the average spend of South African companies of 2,11% of payroll costs (excluding skills levies).

Talent management
The Talent Management Programme (TMP) aims to harness Transnet-wide synergies by identifying the best opportunities for key employees and accelerating their development through special assignments, projects and executive education.

The primary purpose of the TMP is to link the needs and interests of Transnet and its employees for mutual benefit through effective talent identification and management, coupled with sound workforce planning.

Performance and reward
Transnet strives towards a performance driven culture. The Company's new remuneration strategy is geared to this purpose and is designed to attract, motivate and retain the right people, using an appropriate mix of financial and non-financial rewards.

A new performance incentive scheme was designed and implemented for all employees. Approximately 4 000 non-bargaining unit employees were trained on a new performance-management system with the majority having performance agreements that form the basis for performance reviews at the end of the year. These will determine any incentive bonus scheme payments. The system will be further entrenched in the year ahead.

The Group has adopted a 'total cost to company' reward approach, accompanied by a new contract of employment and the standard-isation of remuneration and benefits for employees outside the bargaining unit.

Human resources (HR) enablement
Overall HR practitioner competence has been enhanced through change management, capacity building and performance management training programmes, which will continue in 2007. New HR policies and supporting standardised processes and accountability matrices have been developed. An education and communication campaign will ensure their successful implementation.
In 2007 an HR shared services centre model will be initiated for high volume transaction processing.
HR has also introduced a measurement dashboard to track monthly performance within a range of indicators.

Employee relations
During the year, the most contentious issue on the labour relations agenda was the disposal of Transnet's non-core assets. However, after numerous one-day stoppages, management and relevant trade unions concluded an agreement to allow the disposals to proceed without disputes. Following the disposal process, successful relationship-building initiatives have included quarterly union-management lekgotlas and the establishment of a forum comprised of Transnet and union leaders to discuss progress against the Company's turnaround strategy.

During the year, additional employee relations projects included the restructuring of the social plan to ensure more effective and efficient management of redundancies as well as the negotiation of a new recognition agreement with organised labour.

Employee wellness and HIV/Aids
The HIV/Aids epidemic is a major challenge for South African businesses. Transnet acknowledges its leadership role in the prevention of the disease and the treatment and care of HIV/Aids infected employees.

Transnet's HIV prevalence rate was estimated at 9,7%, in October 2006. The estimate was based on an impact analysis conducted by Old Mutual Group Assurance, specifically assessing the risk/benefit costs of HIV and Aids on death and disability. The prevalence rate for the Group is lower than expected when compared to the South African national average, but this may be as a result of the ageing workforce profile that currently exists within the Group, as well as geographical distribution. Currently, 846 employees are accessing HIV/Aids benefits and have enrolled for the disease management programme.

In the next three years, Transnet will focus on reducing the potential human and financial impact of HIV/Aids across the Group by:

- Intensifying preventative strategies;
- Providing adequate and appropriate treatment, care and support for employees;
- Aligning and integrating the HIV/Aids strategy with the broader Transnet and HR strategy; and
- Focusing on effective governance and accountability, using a monitoring and evaluation framework.

Transnet's leadership is committed to manage the social, economic and developmental consequences of HIV/Aids proactively as illustrated in the reality story below:

REALITY STORY: PORT TERMINALS LEADERSHIP TACKLES THE CHALLENGE OF HIV/AIDS

Facing the challenge

Port Terminals has taken a decisive and leadership role in proactively planning for the impact of the HIV/Aids pandemic and, in doing so, protecting its most valuable resource – its people.

Making the commitment

To date, Port Terminals has committed more than R3 million to address employee healthcare issues and earlier this year conducted an analysis of its requirements with the assistance of occupational care specialists. The analysis revealed key barriers that could hamper the implementation of a robust HIV/Aids prevention and awareness programme. Port Terminals initiated its roll-out which included voluntary counselling and testing (VCT) as well as extensive management education. The roll-out also included the development of a robust peer educator model to extend the reach of VCT benefits to as many employees as possible.

Consulting the stakeholders

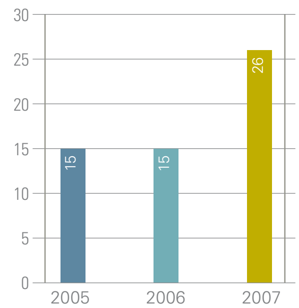
Organised labour has supported Port Terminals's HIV/Aids prevention and awareness initiatives since inception and management is currently assessing ways of engaging all stakeholders to further strengthen this collaboration.

Taking action

In line with Port Terminals's commitment to addressing HIV/Aids through a holistic wellness strategy, 60% of management as well as 80% of its executive committee participated in medical and physical assessments. VCT, which is ongoing, is aimed at early detection and referral for disease management and also helps identify and document risky behaviours that, once recorded, can inform improved planning.

Making progress

To date, approximately 4,2% of employees have access to the disease management programme. In the year ahead, the programme will be rolled out throughout the Company, offering all employees the opportunity to be physically and medically assessed. Database management will be a critical success factor in tracking trends to monitor new infections and status conversions from negative to positive.



Employee fatalities

Employee safety

At Transnet the safety of employees and the public (for more on public safety refer page 76) has been, and remains, at the heart of its Enterprise-wide Risk Management Framework. It provides Transnet with the discipline and tools to master risk. Ultimately, safety is the Transnet Board's responsibility. Until recently this responsibility was taken up by the Audit Committee. Given the acute importance of safety, the Board has set up the Risk Committee during the year.

A new position, that of Chief Risk Officer, has been created, to ensure sharp focus on safety at the highest level of the Company. Safety is now firmly escalated to the Board and Exco. Apart from calling executives to account to Exco:

- Safety/toolbox talks, incident recall sessions and information sharing are being promoted to inculcate a culture of accountability for safety;
- There are follow-ups on outstanding Board of Inquiry (BOI) hearings and assessments of the implementation of corrective actions or plans that have been recommended by the BOI; and
- Group Compliance and Internal Audit continuously provide assurance on the effectiveness of the safety and risk controls.

The responsibility for the roll-out of safety management resides with Group Safety, Health, Environment and Quality (SHEQ) Risk Management. This responsibility extends to all Transnet employees, including contractors, who play a role in delivering on the commitments set out in the Transnet SHEQ Risk Management Policy.

During the year Transnet's SHEQ Risk Management Standards were reviewed and updated in accordance with the Enterprise-wide Risk Management (ERM) Framework to ensure that they are current, adequate and effective.

With safety remaining a key challenge within Transnet, the safety management process has been centred on issues of employee accountability. These include discipline and consequence management for non-adherence to operational and safety requirements.

During the year specific emphasis was placed on inculcating a culture of accountability through the Vulindlela reengineering programme.

We are saddened to report 26 employee fatalities during the year. A total o f 14 fatalities were due to motor vehicle accidents and 12 were caused by operational injuries. Refer to the graphic entitled 'Employee fatalities' above. Whereas the 2005 and 2006 numbers reflected fatalities across the five core operating divisions, 2007 reported numbers include the newly established Transnet Projects (nine employees).

SHEQ performance Indicator	Target 2008	**Actual 2007**	Actual 2006	Actual 2005
Cost of risk as % of revenue (%)	2,38	**2,66**	3,20	4,00
DIFR (Disabling injury frequency rate)	1,20	**1,30**	1,40	1,60
National Occupational Safety Association (NOSA) rating (%) (Audited annual SHE performance achieved)	83	**80**	82	71

REALITY STORY: SAFETY FIRST AT FREIGHT RAIL

Facing the challenge

Improving safety is one of Freight Rail's major operational challenges. As a result, the rail division has identified the following tasks relating to maintaining safety standards:

- Ensuring that everyone in its operations is committed to enforcing agreed standards and systems of safe operation
- Replacing defective infrastructure and rolling stock which contribute to Freight Rail's high incident rate .

Making the commitment

Freight Rail has integrated safety into all aspects of its business and all members of the Freight Rail family work to protect their own safety and that of their colleagues. This is to complement a major capital expenditure programme over the next five years to refurbish ageing infrastructure. The safety programme integrates all business functions and is being driven under the Transnet-wide reengineering programme, Vulindlela.

Consulting the stakeholders

Employees are key stakeholders and staff awareness is a key element of Freight Rail's safety drive. Chief Executive, Siyabonga Gama, has written to each Freight Rail employee explaining the rationale for the safety campaign and that they will be rewarded according to their adherence to the safety programme.

Taking action

Freight Rail has identified five elements epitomising safety-related behaviour. These have been made the focus of its safety awareness initiative. They are: focus on speeding; sleepiness; substance abuse; signals passed at danger; and the importance of supervision of pre-trip inspections.

Making progress

Freight Rail has put in place comprehensive plans to address safety together with checks and balances.

CARING FOR THE COMMUNITIES WHERE WE OPERATE

Corporate social investment (CSI)

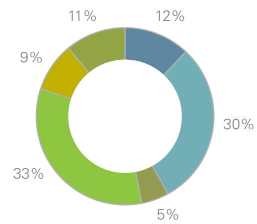
The Transnet Foundation seeks to address diverse socio-economic challenges in South Africa recognising that dynamic and innovative social contributions are required to be effective and sustainable. The foundation's organisational objectives therefore include the maximising of its investment in the Government-defined target nodes by integrating the focus and delivery of programmes. It also contributes towards holistic educational development by improving the standards and quality of education in selected schools, as well as providing sport development interventions to help address social ills.

The Transnet Foundation reasserts its commitment to its business goals and will continuously review its objectives through internal and external mechanisms. The Foundation will also maintain relationships with strategic stakeholders whose partnerships have, over the years, achieved high sustainability impacts.

Transnet takes cognisance of the South African Government's key focus areas – known as 'presidential nodes' – as well as how these integrate with the focus areas of the Transnet Foundation. National imperatives for infrastructure development, capacity building, job creation and HIV/Aids prevention, intervention and rehabilitation, are also critical. These activities are central to the Transnet Foundation Socio-Economic Development Initiative (TSEDI). TSEDI endeavours to optimise social and economic benefits for communities that are most in need of upliftment.

Other portfolios

In the past year the foundation has made good progress in sports and education by building schools and providing the infrastructure to deliver quality education to learners. This portfolio has also



Transnet Foundation split of CSI spend per portfolio for 2007

- Arts and culture
- Health – Phelophepa
- Entrepreneurial development
- Sport and education
- Women, youth and children development
- Discretionary

focused on the upgrading of teacher skills, with emphasis on mathematics, science and technology. More than 10 rural and farm schools across each province have been earmarked for development so as to overcome their low pass rates, high crime incidences and associated ills. More than 750 000 learners at school level and 10 000 learner-athletes take part in the provincial and national inter-schools sports tournaments sponsored by Transnet Foundation. 75 000 boys and girls are being introduced to a wide variety of sports codes.

Through the Entrepreneurial Development portfolio Transnet's under-utilised containers were donated to various communities to provide offices for essential public services such as pension pay outs, social grant registration and other pay out points. The containers are now also being used as satellite police stations and training centres.

In the healthcare portfolio, the foundation expects to introduce the second Phelophepa train in the year ahead to improve the delivery of mobile community healthcare services. These services include primary health (including HIV/Aids), dental care, pharmacy and eye care. During the past year the train has facilitated the treatment of 45 000 patients in 36 weeks after having visited four provinces. The train is staffed by at least 20 professional service providers and 37 students.

The arts and culture portfolio continues to support the development of sustainable creative industries in South Africa. During the year projects such as the North West Cultural Calabash Festival and the Women in Arts Festival in Newtown were managed as part of a commitment to the development of small business and the ongoing renewal of the Johannesburg inner city. The use of Transnet Theatre Trucks continues to bring events to people in rural communities who would not ordinarily benefit from such events.

	2007		2006	
CSI spend per portfolio	**R million**	**%**	R million	%
Sport and education	**20**	**33**	8	25
Health – Phelophepa	**18**	**30**	10	30
Arts and culture	**7**	**12**	6	18
Women, youth and children development	**5**	**9**	2	7
Entrepreneurial development	**3**	**5**	2	6
Discretionary	**7**	**11**	5	14
	60	**100**	33	100

Yet another patient being treated aboard the Phelophepa Health Train in one of its clinics.

REALITY STORY: PHELOPHEPA HEALTH TRAIN

Making the commitment
Since 1994 Phelophepa, Transnet's mobile health train, with its 18 permanent staff members and many volunteers, has travelled through out the country, especially rural areas, braving storms, the winter chill and the scorching African sun, bringing much-needed primary healthcare services to needy fellow South Africans in support of the South African Government's efforts to provide primary healthcare for all.

Consulting stakeholders
Phelophepa's success is due to its ability to work with multi-sectoral partners. The train is marketed through community developers and further education and training (FET) institutions. Besides Transnet, the initiative receives support from external donors including Roche, Colgate-Palmolive and Canon Collins Trust, totalling around R25 million during the year.

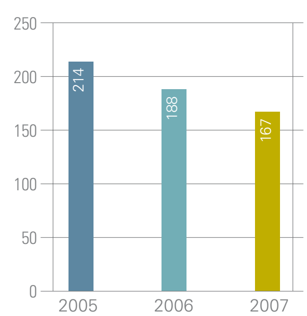
Taking action
The train has reached and provided primary healthcare services to more than two million people and continues to instil a true sense of pride in our country and its future, empowering communities to be custodians of their health and holistic wellness.

When the train visited Douglas, Modderrivier, Prieska and Jan Kempdorp in the Northern Cape, its team observed that people in the areas needed more than the treatment of ailments such as muscular skeletal diseases, hypertension, diabetes, flu and STDs and that systematic interventions were also required to fight child malnutrition, women abuse and teenage pregnancies.

Making progress
Keeping Phelophepa on track requires dedication and commitment. Everyone involved in Phelophepa shares the vision of providing quality healthcare service to rural communities in South Africa.

Community impact and public health and safety
Transnet is acutely aware of the impact of its extensive rail, ports and pipeline operations on the South African public and the communities in which it operates. The SHEQ standards developed during the year lead the way for the development and application of SHEQ management systems across the Group. They also extend to community impacts as well as to public health and safety.

Public safety is of paramount concern for Transnet. Safe rail level crossing by the public remains a challenge and awareness raising initiatives are ongoing. Level-crossing incidents, as a major contributor to public fatalities, show a declining trend, in part as a consequence of the public awareness campaign undertaken in Freight Rail.



Public fatalities

Dust covers are being put into place at Saldanha's iron ore terminal.

REALITY STORY: DUST MITIGATION AND MONITORING IN SALDANHA

Facing the challenge

Dust generated by the iron ore operations at the Port of Saldanha has been a major challenge over the years, mainly due to the nuisance factor to the public. This has resulted amongst other things in the discolouration of paint on several of the houses in the area, as well as other property surrounding the port.

Making the commitment

In 2006 Transnet, represented by its Chief Operating Officer, Louis van Niekerk, committed itself to addressing these and other environmental issues by means of an agreement with communities around the port. This voluntary agreement is confirmation of Transnet's commitment to continual improvement, responsible environmental management and concern for communities living near its operations. So far, the Company has allocated a budget of more than R108 million towards a comprehensive dust mitigation and monitoring programme, which is benchmarked against best practice elsewhere in the world.

Consulting the stakeholders

The community of Blouwaterbaai, a residential area near Transnet's operations in Saldanha, formed a Dust Concern Group and Transnet has been interacting with the group over the past year to monitor progress on the implementation of the agreement. A team of 40 local residents was also employed to clean up the quay as part of this project, thus contributing to much needed job creation in the area.

The Environmental Monitoring Committee (EMC) for Phase 1B, with representation from community members, monitors the implementation of the agreement.

Taking action

Transnet's programmes to mitigate dust include:

- Providing covers for conveyors, which will be completed by end of July 2007;
- Using environmentally non-damaging chemicals to spray the dust, thereby reducing the use of water, which is a scarce resource in that area, to mitigate dust;
- Improving the design of road surfaces is well under way, with most of the roads to be tarred by October 2007
- Investigation of alternative water resources for dust mitigation that has been completed with a recommendation for a reverse-osmosis plant. An environmental assessment process will soon commence for this; and
- Upgrading of the tippler dust plant number 1, has already resulted in the reduction of dust emission levels to far below international standards.

Making progress

The following initiatives are in place to manage future impacts on the environment:

- The dust mitigation and monitoring programme will ensure, as far as possible, that dust levels are reduced to acceptable local and international standards;
- An air quality management strategy for the port is being developed by the Council for Scientific and Industrial Research (CSIR). Monitoring stations are located throughout the Saldanha, Vredenburg and Langebaan area to monitor dust fallout. The community provided input on the location of these stations;
- Transnet does dust monitoring (PM10) on a daily basis and reports the outcomes monthly to the community. Monitoring stations and cameras have been installed to assist with this. Organisational reporting on dust incidents is also done monthly;
- An online moisture analyser has been installed to indicate when more water or chemicals should be added to limit dust, resulting in much-improved management of the whole system; and
- Additional sprayers at conveyor transfer points have also been installed, reducing dust levels even further.

Measures already implemented have already shown major improvements and the following dry period (summer) will demonstrate the effectiveness of the mitigation measures put in place. Transnet will report annually on progress with the dust mitigation programme.

MANAGING OUR ENVIRONMENT RESPONSIBLY

Transnet's rail, ports and pipeline operations have a potentially adverse impact on the environment. In line with its philosophy to deliver responsibly on its commitments, Transnet strives to minimise these environmental impacts.

Transnet's SHEQ Risk Management Policy commits the Company to providing efficient freight transportation on a sustainable basis that enhances the interests of stakeholders, while improving safety, health, environmental and quality risk management. The policy, therefore, governs operational practices relating to the management of environmental risks and provides the basis for implementing Company-wide environmental management systems.

All operating businesses uphold the SHEQ Risk Management Policy, which provides the framework for leading practice and the incremental accreditation into integrated International Standards Organisation (ISO) systems by 2010.

During the year, Transnet invested considerable time and resources to anticipating, preventing and mitigating the effects of operational impacts on the environment.

The comprehensive SHEQ Risk Management System Standard was developed, incorporating the requirements of the South African Constitution and of the National Environmental Management Act, 107 of 1998.

REALITY STORY: DISASTER MANAGEMENT READINESS PUT TO THE TEST

Facing the challenge

The busy ports of National Ports Authority are vulnerable to an array of potential disasters that could have an adverse impact on stakeholder safety and health as well as on the 'silent stakeholder' – the environment. National Ports Authority ports are considered to be environmentally sensitive areas and are, therefore, constantly monitored for potential disasters.

Making the commitment

Recognising the importance of testing the port's readiness and responsiveness in case of an emergency, the leadership at the Port of Richards Bay and Joint Bunker Services (JBS) terminal led an oil pollution simulation exercise at Coal Berth 209/301. Contingency teams worked closely to simulate an oil spill from the vessel 'Ocean Confidence'.

Consulting the stakeholders

All relevant role players were commissioned – including Richards Bay Coal Terminal, National Ports Authority Environmental Department, National Ports Authority divers, Employee Care Centre, Corporate Affairs Department, South African Maritime Safety Association, South African Police Service and KwaZulu-Natal Wildlife. Stakeholders were alerted to the incident and were asked to take the appropriate action.

Taking action

The simulation exercise took place on 28 September 2006 and lasted an entire morning, with divers first assessing the situation around the vessel. The employee care centre attended to an 'affected' fisherman whilst the port's environmental department and KwaZulu-Natal Wildlife attended to pelicans covered in oil. National Ports Authority's Corporate Affairs Department managed communication and updated members of the media on site.

Making progress

Simulation exercises such as this are considered globally to be valuable opportunities for assessing the reaction, resources and cooperation between impacted stakeholders. The lessons learnt from this exercise were vital in equipping the port to attend to future incidents and proved to enhance the synergy between all stakeholders present.

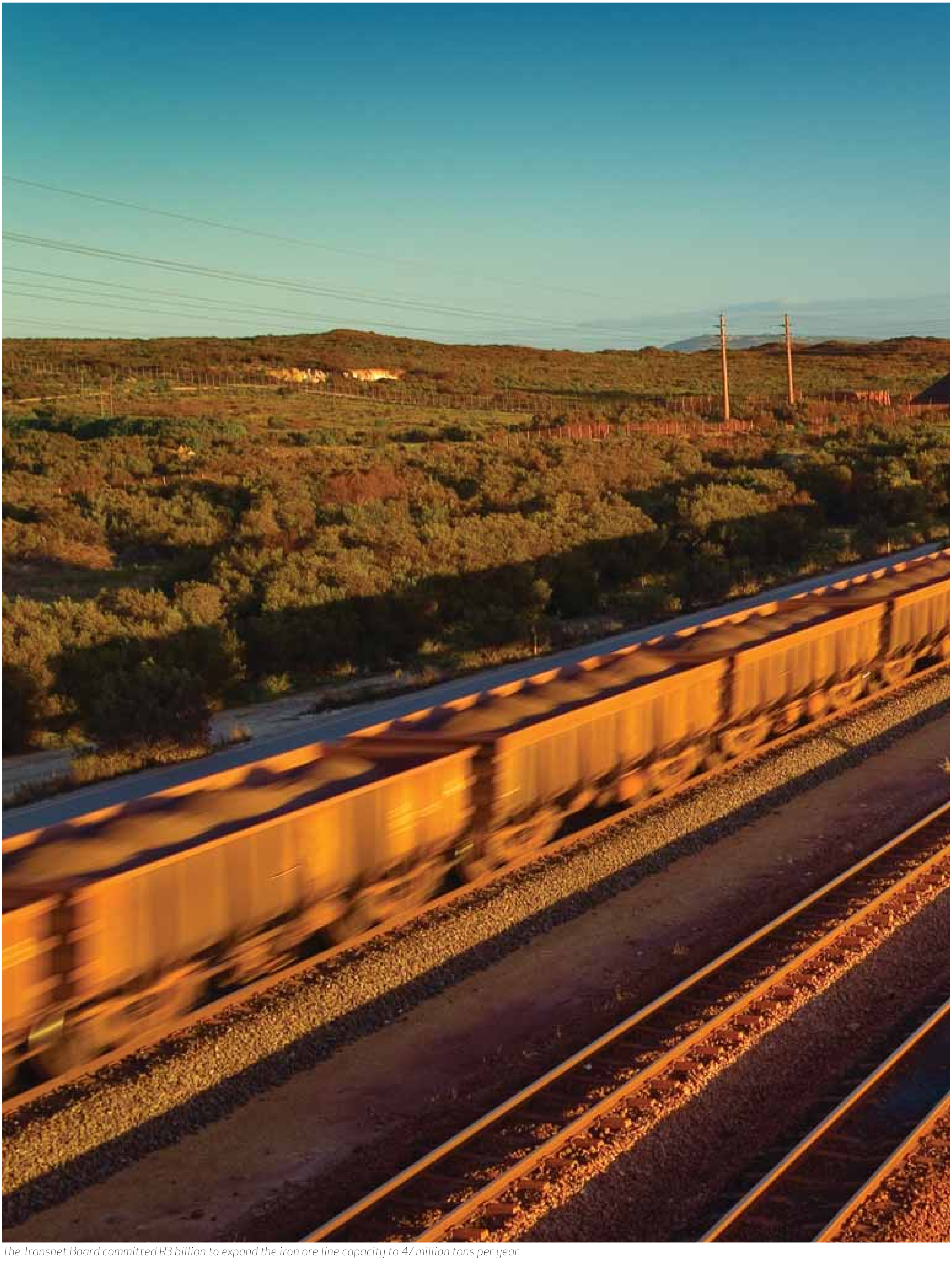
Dust covers at Saldanha prevent dust pollution of the environment.

The standard focuses on five key phases:

- Policy;
- Planning;
- Implementation and operation;
- Checking and corrective action; and
- Management review.

During the year, Transnet focused on integrating environmental issues into the Company's planning processes to better engage and communicate with impacted communities. Specific emphasis was placed on the creation of environmental management capacity in Transnet Projects to support major projects. The Company started the process of structured and co-ordinated engagement with Government on environmental matters. This leads the way for proactively building sustainable stakeholder relations and communication in the year ahead.

In line with Transnet's commitment to managing operational impacts on the environment, the Company will embark on the incremental measurement of environmental performance in the year ahead.



The Transnet Board committed R3 billion to expand the iron ore line capacity to 47 million tons per year

OPERATIONAL REPORTS

TRANSNET freight rail

Transnet Freight Rail ordered 212 locomotives for its general freight business and 110 dual voltage locomotives for the coal line

Freight Rail's infrastructure represents approximately 80% of Africa's rail network.

Financial overview	**Year ended 31 March 2007 R million**	Year ended 31 March 2006 Restated R million	% change
Salient features			
Revenue	**14 574**	14 055	4
EBITDA	**3 737**	2 910	28
Depreciation and amortisation	**1 704**	839	103
Operating profit	**2 160**	2 006	8
Profit/(loss) before taxation	**968**	1 064	(9)
Net asset value	**9 557**	9 082	5
Managed assets	**24 305**	18 489	31
Profitability measures			
Operating margin (%)	**14,8**	14,3	4
Return on net assets (%)	**10,1**	11,5	(12)
Return on managed assets (%)	**8,9**	10,8	(18)
Capital expenditure			
Total	**7 387**	3 809	94
Employees			
Number of employees	**24 811**	31 398	(21)
Revenue per employee	**0,59**	0,45	31

Revenue up
4% to
R14,6 billion

EBITDA up
28%

Five-year capital
expenditure plan
R34,8 billion

KEY PERFORMANCE INDICATORS (KPIs) – FREIGHT RAIL

	2006 Actual	2007 Target	**2007 Actual**	Performance	2008 Target	% change vs actual
Financial						
Revenue (R million)	14 055	16 478	**14 574**	Not achieved	16 643	14
EBITDA (R million)	2 910	3 715	**3 737**	Achieved	4 509	20
Infrastructure						
Capital expenditure (R million)	3 809	7 253	**7 387**	Achieved	7 878	7
Efficiency						
Volume – iron ore (mt)	29,6	32,8	**30,0**	Not achieved	35,0	17
Volume – coal (mt)	68,7	74,0	**67,0**	Not achieved	72,0	7
Volume – general freight* (mt)	83,8	85,0	**79,6**	Not achieved	82,1	3

* General freight volumes are a combination of metric tons of bulk commodities transported plus the number of vehicles and containers transported. The latter two are counted as one volume ton per unit transported irrespective of their actual mass.

BUSINESS OVERVIEW

The primary purpose of Transnet Freight Rail's (Freight Rail) is the transportation of rail freight. The division continues to operate the long-distance passenger services Shosholoza Meyl and the luxury Blue Train. However, as the processes for the divestment of such services are well advanced, they have been treated as discontinued operations in terms of IFRS 5 in the financial statements. Shosholoza Meyl is to be consolidated with the commuter passenger services of the South African Railway Commuter Corporation (SARCC), independent of Transnet. Divestment of the passenger assets will enable Freight Rail to focus on its core business of freight operations, which currently account for approximately 95% of its revenues.

Freight Rail has a 22 247 km route rail network, of which some 1 500 km comprises heavy haul lines. The network connects the ports and hinterland of South Africa as well as the rail networks of the sub-Saharan region. Freight Rail's infrastructure represents approximately 80% of Africa's rail infrastructure

Freight Rail's customer segments comprise:

- Mining: coal, iron ore, manganese, granite, chrome and non-ferrous metals;
- Manufacturing: chemicals, fuel and petroleum, fertiliser, cement and lime as well as iron steel and scrap;
- Containers and automotive: inter-modal wholesale and industrial; and
- Agriculture and forestry: grain, stock feed and milling, timber, paper and publishing as well as fast moving consumer goods.

Performance highlights

Management continued to focus on reestablishing Freight Rail as a world-class railway that is safe, meets the needs of its customers and makes an appropriate return on invested capital.

Operational achievements during the year include:

- For the first time, Freight Rail transported all the coal and iron ore produced;
- EBITDA increased by 28% to R3 737 million (2006: R2 910 million) based on significant productivity improvements and good cost control. However, an increase in depreciation of 103% to R1 704 million (2006: R839 million) as a result of the ramp-up of the major maintenance programme, resulted in operating profit increasing by only 8% to R2 160 million (2006: R2 006 million);
- Profit before taxation decreased by 9% from R1 064 million to R968 million largely because of the increased depreciation, amortisation and finance costs as a result of the increase in capital expenditure;
- The operating margin improved marginally from 14,3% to 14,8%;
- Stabilising the integration of Freight Rail's maintenance depots into Rail Engineering. This programme effectively doubled the size of Rail Engineering and has yielded positive results both in terms of productivity improvements and of reliability of rolling stock. Wagon liftings at the combined Rail Engineering increased from 12 000 per annum to 20 000 over the past year. Although output was constrained by a shortage of new wheel sets in the local market, the lifting programme made progress in focusing on wagons that were significantly overdue for major maintenance interventions. This has had a positive impact on the availability and reliability of the wagon fleet. The allocation of an appropriate capital expenditure budget to address backlogs in maintenance on locomotives has also resulted in improved availability and reliability of Freight Rail's key locomotive fleets;
- Managing a capital programme of R7 387 million (2006: R3 809 million), including the major maintenance programmes amounting to R3 265 million. These programmes were aimed at expanding capacity as well as addressing the historical under-investment in infrastructure and rolling stock;

- Establishing regional management structures equipped to manage railway operations on a decentralised basis. These structures have begun to focus on the root causes of ongoing safety issues that jeopardise the smooth running of Freight Rail's operations and on improving service delivery;
- Commencing the programme of rationalising holding stores scattered throughout South Africa. These efforts, aligned with the ongoing streamlining of the purchasing process, should significantly reduce stockholdings in future, yet also improve the distribution of critical infrastructure components resulting in improved infrastructure maintenance practices;
- Initiated a fleet renewal strategy aimed at repositioning the general freight business as a growth sector going forward as well as strengthening other aspects of the bulk freight business through:
  - The placing of an order for 32 additional new heavy haul locomotives for the iron ore line;
  - Commenced a process to procure 212 diesel locomotives to overcome capacity constraints in the general freight business; and
  - The placing of an order for 50 'like new' refurbished diesel locomotives.

  These acquisitions are in addition to the order for 110 heavy haul locomotives placed in the prior year for the coal business; and
- Increasing capacity on the coal line to 78 mt per annum (previously 72 mt per annum). This capacity will be increased to 82 mt per annum during 2008, once the Jumbo coal wagons currently on order from Rail Engineering and the first new heavy haul locomotives on order from Mitsui are received. This will be incrementally improved in line with coal demand up to 92 mt. These capacity increases will be based on coal customers signing new long-term take-or-pay contracts for the rail service.

ACHIEVING RETURNS GREATER THAN THE COST OF CAPITAL

Financial management

Freight Rail is committed to being a financially successful and sustainable business. The Improvement of business profitability was, therefore, a primary focus during the year.

Financial performance

Revenue increased to R14 574 million from R14 055 million in the previous year. However, volumes transported declined as set out below.

The operating profit margin has increased to 14,8% from 14,3%, which can be attributed to the cost-savings initiatives undertaken. Included in the profit before taxation, is an amount of R146 million relating to hedging gains on the funding of new locomotives, incurred prior to the adoption of hedge accounting.

Total freight transported was lower than expected and can be summarised as follows:

Coal and iron ore volumes were lost due to the unavailability of product from suppliers.

No growth in revenue was achieved in the passenger services. The national strike in the security sector at the beginning of the previous year impacted Freight Rail's services due to increased cable theft. The latter affected our ability to deliver safe services and affected the security of passengers, which discouraged the utilisation of train services.

The return on net assets before taxation was 10,1% compared to 11,5% in the previous year. This ratio decreased as expected as the result of the increased capital spend and depreciation and amortisation.

A transfer of 6 253 employees to Rail Engineering during June 2006 contributed to the reduction in staff numbers. The revenue per employee increased and total costs excluding depreciation, and amortisation declined from R11 145 million in the previous year to R10 837 million, indicating a decline in real terms as a result of the strict management of costs and improved productivity.

Marketplace and customer management

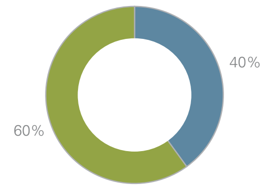
The growth strategy was further refined during the year and has a renewed focus on key risks and opportunities that will, over time, rebuild trust, enhance credibility of the service offering and improve Freight Rail's market position. A strategic plan was developed to validate market growth aspirations. This will be further enhanced by the finalisation of the Rail Master Plan, which has a 20-year horizon.

A Customer Care Department was established to deal with customers' concerns and to proactively inform customers of operational incidents as a first step towards transforming the business into a more customer-focused organisation. The unreliability of rail services and limited capacity – posing risks to customers and the financial health of the Company – were rigorously managed through the commercial stream of the Vulindlela project.

Operations management

Freight Rail continued its main operational thrust of running a scheduled railway by means of an integrated train plan. Whilst on-time departures and arrivals continue to show marked improvement, they have not yet reached satisfactory levels. Poor equipment reliability, safety related incidents and inadequate operational planning continue to hamper progress in this regard.

- The coal export line was severely affected by the mines' periodic inability to produce coal and their resultant cancellations of freight volumes during the rainy season that occurred in the first quarter of the year. Derailments reduced markedly on the coal line as a result of investment in backlog maintenance, while other safety related incidents such as overhead rail hook-ups and cable theft have contributed to reduce capacity on some of the rail corridors across the country. The national strike in the security sector also adversely affected the delivery of volumes.
- During the year much effort was spent on in increasing installed capacity in the rail system. This will pave the way for a future sustainable growth path. There was marked success across all sectors. However, there were a number of factors, such as poor weather conditions, the short supply of wagons caused by a worldwide undersupply of wheel centres and an unreliable supply from the South African supplier as well as plant breakdowns and production problems with some customers.
- Increased domestic demand for steel and cement was accompanied by limited production capacity from local producers. The focus on supplying domestic markets resulted in increased imports and a reduction in rail traffic to Mozambique and Botswana. The local cement and steel industries are investing in production expansion projects that will bring about additional volumes on rail in 2008 and 2009.
- Chrome exports have increased due to a high demand by China for metallurgical chrome and a weakening rand. The shipping rates for bulk commodities increased significantly during the year, resulting in a significant swing to containerised chrome exports. New exporters entered the market during the year and Freight Rail is presently engaging customers to switch more volume from road to rail. Freight Rail has increased the payloads per train, increasing the export tempo of ferrochrome on the Maputo Corridor.
- The emergence of new entrants in the manganese market resulted in current market participants engaging in significant competitive rivalry for the additional capacity.
- The energy portfolio was negatively affected by shutdowns, off-spec products and the low global demand for export pitch coke and ammonium nitrate.
- The poor across-border turnaround times of wagons resulted in an embargo on sending Freight Rail wagons across the border. This, in turn, resulted in a reduction in transported fuel volumes. The business experienced a loss of copper volumes as delays



2007 BEE procurement

BEE procurement	R1 490 million
Non-BEE procurement	R2 250 million

caused by foreign partner railways have resulted in the non-placing of empties at loading points in DRC and Zambia. Domestic Maize volumes transported across the border have decreased as Zambia experienced better crops in 2006.

Disposals
The Blue Train will be sold to the private sector. Shosholoza Meyl (the inter-city passenger service) is to be transferred to the South African Rail and Commuter Corporation (SARCC) in terms of a decision by Government to consolidate passenger rail services. It is anticipated that the disposals will be completed this year.

Supply chain management and BBBEE
Freight Rail's supply chain management made significant in-roads in achieving its objectives of cost-containment and good governance. Numerous initiatives, based on the Group Supply Management "flight plan" under the Vulindlela programme, were implemented at different stages during the year. This created the opportunity for cost reductions in procurement of more than R340 million and vastly improved the internal procurement processes in line with the Detailed Procurement Policy (DPP). However, as a significant proportion of these reductions affected heavy maintenance, capital expenditure and stock costs, the benefit to the 'bottom line' will only be achieved in future years.

Freight Rail remains committed to preferential procurement of goods and services under the newly adopted broad-based BEE Codes of Good Practice. During the year, 40% of the total procurement expenditure went to BEE suppliers. In terms of the Competitive Supplier Development Programme (CSDP) and through Freight Rail's capital budget, further opportunities will be created in the next year for local manufacturers to join the supply base, provided that they can supply manufactured goods at globally-competitive prices.

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

In line with Transnet's governance, risk and compliance policies, Freight Rail has established a process for governance and identifying, evaluating and managing significant risks that influence the attainment of its business objectives.

To this end, in addition to the oversight afforded by the Transnet Board of Directors and the various Board mandated committees, Freight Rail has established the following committees tasked with oversight and governance roles:

- Exco, which meets bimonthly, is chaired by the CEO and is responsible for approving strategy, capital investment plans, annual business plans and ensuring performance monitoring and delivery;
- Risk Committee, which meets quarterly, is chaired by the CEO and is responsible for all aspects of enterprise-wide risk management with a particular emphasis on safety;
- Operating Committee, which meets monthly, is chaired by the COO and is responsible for overseeing all rail related operating activities and is accountable for the safe operation of the railway;
- Investment Committee, which meets at least monthly, is chaired by the CFO and is responsible for recommending the five-year annual investment plans and for approving capital expenditure;
- Internal Control Steering Committee, which meets monthly, is chaired by the CFO and is responsible for ensuring that appropriate controls are established and operated. All reports of the internal and external auditors are considered at this committee and corrective action plans are monitored; and
- Acquisition Council, which meets monthly, is chaired by the CEO and is responsible for awarding all major contracts.

Strategic direction
Freight Rail aims to create a reliable and profitable business through the increase of rail volumes and freight traffic.

The business has identified the following five strategic initiatives, rooted in Transnet's four-point turnaround strategy, in order to achieve its long- and medium-term financial and operational goals.

Safety: Transform Freight Rail into a safe railway
The Vulindlela safety programme is at the core of Freight Rail's improvements in safety performance. This reengineering programme includes initiatives for the implementation of a safety management system based on best practice and ensures that safety structures are properly integrated into the business structures. It is the intention to attain world-class safety practices within five years.

Create capacity: Invest to maintain, replace and increase capacity
Capacity will be sustained and created through extensive investment in rolling stock and infrastructure. The backlog maintenance programme is aimed at restoring railway capacity while the transformation and reengineering initiative will further enhance capacity by improving operational efficiency and engendering a culture of continuous improvement. This programme aims to identify programmes that enable the entity to do more with less.

Scheduled freight railway: Implement efficiency improvements
The Vulindlela efficiency programmes aim to improve throughput, asset utilisation and productivity on dedicated corridors (coal, iron ore and initially the general freight NATCOR (Johannesburg to Durban) and CAPECOR (Johannesburg to Cape Town) corridors). These programmes are supported by process improvement in the National Operations Centre planning and monitoring processes.

Customer service delivery: Retain the desired customer base and improve service delivery
The Vulindlela efficiency programmes, contributing to customer service delivery, and the commercial programme – addressing yield management, pricing, volume growth, contracting and sales force training – aim to retain and grow the desired customer base.

Leadership and employee capability: Optimise human capital deployment and development
The enhancement of leadership and employee capability will be enhanced through Transnet initiatives such as performance management and reward implementation and, the roll-out of programmes by the Rail Academy. These programmes focus on critical operational grades with particular emphasis on crew resource management. Employee programmes will be augmented by extensive change leadership, business appreciation and transformation programmes that target all employees.

Freight Rail will continue to improve corporate governance by integrating risk management and governance processes into business practice and Internal controls.

Risk management
During the year processes were instituted to enable sound implementation of Enterprise-wide Risk Management (ERM). A sharper focus was placed on capacity building and skills enhancement so as to empower risk champions, line management and other employees in their risk management functions and responsibilities.

The key financial, operational and commercial risks, their root causes and associated impacts have been identified and evaluated. Controls and action plans have been developed to mitigate/treat root causes that lead to unacceptably high residual risks.

Whilst some progress has been made in the implementation and embedding of ERM there are still some notable challenges.

Key risks at Freight Rail	Freight Rail's planned response
Operational safety	Freight Rail acknowledges that incidents are preventable. It is therefore implementing various initiatives to inculcate a world-class safety culture. It continued implementation of the 5-S programme that closely monitors supervision, speed, substance abuse, signal correction and sleepiness. This forms a basis for determination of focused corrective actions and implementation thereof. Installing technological solutions such as 'on-board computers' (OBC) in locomotives. Installation of the signals passed at danger (SPAD) detection system is under way.
Asset performance	Improving the availability, reliability and utilisation of assets. Eliminating the maintenance backlog through a planned maintenance regime. Addressing technical obsolescence of assets through investment plans. Conducting technical audits to assess the condition of assets.
Security, crime and sabotage due to cable theft	Active participation in joint Government and SOE forums to fight crime. Engaging relevant Government structures to reclassify cable theft crime as a more serious offence.
Skills retention	Roll-out of the Talent Management Framework. Implementation of the performance and incentive scheme.

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

Freight Rail recognises that a number of stakeholders are affected by operational performance. As such, the organisation is committed to embedding the appropriate accountability within its operational structures.

The Freight Rail Sustainability Steering Committee played a key role in mapping stakeholders and identifying the principal areas impacting stakeholders. Improved channels for engaging with internal and external stakeholders form part of this roadmap to embed organisational sustainability within Freight Rail.

DEVELOPING WORLD-CLASS INFRASTRUCTURE

Rail infrastructure

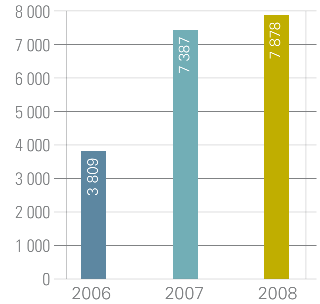
Freight Rail relies on its engineering capabilities for the provision, maintenance and timely replacement of infrastructure and rolling stock to run a scheduled railway. Ensuring reliability, affordability, availability and safety of the network assets remains a challenge. To address this challenge, the capital investment programme was accelerated during the year.

Capital investment

Capital spending for the year amounted to R7 387 million (including capitalised maintenance expenditure of R3 265 million), compared to the R3 809 million in the previous year.

The increase in capital expenditure targeted the under-investment of the past and addressed the contractual commitments on the export lines in terms of volume growth. Simultaneously, the reliability of the fleet, and investment to improve safety, remained a focus area. A major component of the capital plan related to the acceleration of heavy maintenance expenditure.

The Transnet Board approved the locomotive fleet renewal plan in principle in August 2006 to the value of R11 201 million (R2 659 million for upgrade programmes and R8 542 million for new locomotives).



Capital expenditure

The fleet renewal plan will achieve the following objectives:

- Address the under-investment of the past 15 years, which was aggravated by the lack of effective maintenance;
- Improve the efficiency and reliability of the rail transportation system;
- Contribute to the turnaround process;
- Increase traction capacity to meet the growth in rail transport demand;
- Provide traction flexibility on a non-homogeneous network; and
- Help modernise the fleet and retire ageing and maintenance hungry locomotives.

The planned capital expenditure for the next year includes:

Functionality	R million
Wagons	2 652
Locomotives	2 273
Infrastructure	1 667
Information systems and technology	278
Transtel – communications	180
Train authorisations	164
Electrical	148
Plant and equipment	134
Property – buildings and structures	113
Prefeasibility	63
Safety and security	58
Telecommunications	52
Technology	48
Other	48
Grand total	**7 878**

Freight Rail has planned for the following major capital expenditure over the next five years:

Business sector	R million
General freight	24 603
Coal line	4 911
Ore line	3 764
Ngqura	753
Other	791
Grand total	**34 822**

Information and communications technology

Freight Rail's Chief Information Officer (CIO), operating under policies and procedures from Transnet, is responsible for all aspects relating to enterprise information technology and systems (IT&S). This encompasses application development and maintenance, software and hardware management and the setting of standards for technical and business architecture across the information integration domains.

The following key objectives, pursued by the CIO during the year, will continue into the next year:

- Optimising the use of the SAP application software to realise substantial value from Freight Rail's current and future investment in SAP. This includes the identification of specific areas of improvement across processes, people, governance and technology. Specific areas targeted during the year include the development of workflow and process automation of recording employees' time worked; the refinement of controls; the tracking of capital expenditure in the financial modules of SAP and the development of a customer relationship management (CRM) capability to provide a single view of the customer. The latter also improves the capability for logging all interactions with customers;
- Deploying IT to enable controlled time record keeping. This will provide a tool to monitor unauthorised leave and lost time while automating time calculations to ensure standardised policy application. It will also provide the capability to link overtime to productive work;
- Streamlining the IT architecture by replacing legacy applications where required. This includes the development of consignment life cycle management in SAP and the streamlining of management information; and
- Deploying IT to enable a safe and efficient railway through the integrated asset tracking programme. This encompasses all projects related to GPS, radio frequency identification (RFID) and on-board computers (OBC) to provide asset location and speed monitoring. It includes the deployment of handheld terminals and readers to enable yard optimisation.

CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

People management

Freight Rail currently employs 24 811 permanent employees. This represents a reduction in staff numbers from 31 398 in March 2006, mainly as a result of the migration of major maintenance and other engineering responsibilities to Rail Engineering.

The human capital strategy and focus is embedded in Transnet's four-point turnaround strategy and has had the following significant effects during the year:

- A critical skills framework was developed;
- Long hours for critical grades were reduced;
- Good corporate citizenship was further institutionalised through targeted training programmes;
- The ability to operate as a scheduled and stable railway was underscored by appropriate training initiatives;
- A talent management and skills retention framework was formalised; and
- Initiatives were introduced to ensure the availability of personnel within key organisational programmes such as Vulindlela.

Change, transformation and culture

The business simulation programme has been successfully implemented at senior management level. The goal of this programme is to support business reengineering processes by enabling employees to understand the total business and its interfaces, as well as the financial impact of their actions. Corporate governance, PFMA educational programmes containing procedure manuals and personal empowerment training programmes were also successfully rolled out.

Employment equity

The Group Employment Equity Plan was tabled at Group Exco level in March 2007. In the year ahead, Freight Rail will align with Group numerical targets of:

- 71% black employees (at least 61% African);
- 17% female; and
- 3% people with disabilities.

Skills development

The current skills shortages have necessitated multiple strategies to acquire the relevant technical, operational and leadership skills. Freight Rail has embarked on a detailed skills planning and analysis programme to determine the skills priorities for 2006 to 2012.

The following key skills development initiatives were undertaken during the year:

- Mission-critical vacancies were filled across the organisation;
- A structured safety training programme was successfully rolled out; and
- Provisional accreditation was achieved for all training centres.

	Asian (A)		African (B)		Coloured (C)		Black (A+B+C)		White		Total		Total
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Management	28	94	212	408	46	100	286	602	103	774	389	1 376	1 765
Non-managerial	60	374	2 695	11 613	346	1 493	3 101	13 480	763	5 702	3 864	19 182	23 046
Total – 2007	**88**	**468**	**2 907**	**12 021**	**392**	**1 593**	**3 387**	**14 082**	**866**	**6 476**	**4 253**	**20 558**	**24 811**
	0%	**2%**	**12%**	**49%**	**2%**	**6%**	**14%**	**57%**	**3%**	**26%**	**17%**	**83%**	**100%**
Management	26	116	206	425	53	115	285	656	113	935	398	1 591	1 989
Non-managerial	73	466	2 583	15 286	401	1 978	3 057	17 730	938	7 684	3 995	25 414	29 409
Total – 2006	99	582	2 789	15 711	454	2 093	3 342	18 386	1 051	8 619	4 393	27 005	31 398
	0%	2%	9%	50%	2%	7%	11%	59%	3%	27%	14%	86%	100%

F = Female M = Male

The integration of the current training centres into a Railway Academy has progressed well, and it is expected that this will fast-track the development of core skills in the organisation. The Railway Academy has entered into a partnership with the University of Pretoria to assist in the development of engineering skills to address rail specific challenges. Freight Rail's capacity building initiative for shop stewards and supervisory staff in partnership with the University of South Africa is also beginning to show results.

Altogether 2,2% of Freight Rail's labour cost went to the training of critical skills, with more than 5 000 employees being trained and an additional 1 301 employees being recruited into mission-critical positions. 608 Learnerships were completed during the year and a total of 311 bursaries have been offered to students in engineering and commercial disciplines.

Skills development	**2007 R million**	2006 R million
Training, bursaries and grants	**101**	101
% of payroll costs (%)	**2,2**	1,9

Talent management
A retention strategy has been developed, approved and communicated to key stakeholders to ensure that an integrated system for identifying and retaining talent is established. This will further assist in rolling out a succession planning framework.

Performance and reward
Performance management contracts, supported by capacity building efforts, were implemented for the management cadre. The focus was mainly on securing management commitment to ensure that the Company secures its transformational and business goals.

Human resource enablement
Freight Rail embarked on numerous initiatives during the year to expand employee development, including:
- Introducing an electronic time and attendance system;
- Developing, web-based learning solutions;
- Revising recruitment and staffing policies and procedures;
- Initiating a safety management training programme; and
- Institutionalising leadership development programmes.

Employee relations
The employee relations climate is generally sound between Freight Rail management and its labour unions. Communication forums are established and enable regular interaction.

Management and unions that are party to the Transnet Bargaining Council concluded a Variation Agreement on the Basic Conditions of Employment Act. This allows for operational flexibility in a number of areas including daily and weekly rest periods, maximum shift lengths and limitations on working overtime. This agreement is valid for three years and will lapse on 31 March 2009.

Employee wellness and HIV/Aids
Freight Rail implements comprehensive programmes for occupational medical surveillance, lifestyle management, employee assistance and substance abuse. Education and awareness, counselling and medical treatment form a critical component of lifestyle management as a means of promoting healthy minds, healthy people, minimise chances for new HIV/Aids infections and improve the quality of the life of the infected.

Employee safety
Rail safety at Freight Rail has a direct impact on employees and the public (for public safety refer page 91). During this year, a journey towards the implementation of an integrated safety, health, environment and quality (SHEQ) management system was started.

Freight Rail contracted advisory firm, DuPont International, to assess and assist in addressing safety fundamentals. This initiative continues to focus on incorporating safety into all aspects of operation as well as changing cultural mindsets and behaviours towards the goal of improved safety performance. Training to inculcate a safety culture and build a safety

SHEQ performance Indicator	Target 2008	**Actual 2007**	Actual 2006	Actual 2005
Cost of risk as % of revenue (%)	5,90	**6,50**	8,90	6,60
DIFR	1,20	**1,56**	1,50	2,30
NOSA rating (%)	80	**75**	70	69

Freight Rail employee fatalities Fatalities on premises (suicide excluded)	**2007**	2006	2005
Injuries	**5**	4	5
Diseases	**–**	–	–
Road traffic (public roads)	**4**	6	6
Total	**9**	10	11

conscious workforce was implemented to foster ownership and accountability in Freight Rail.

Particular attention is focused on strengthening the rail safety management system and ensuring that it adequately addresses the requirements of the South African National Standard 3000-1, on railway safety. A project plan was developed to address identified gaps and implementation is under way. Amongst others, the plan addresses occurrence management, contract and contractor management, human factors and auditing.

CARING FOR THE COMMUNITIES WHERE WE OPERATE

Corporate social investment (CSI)

In addition to the work of the Transnet Foundation, Freight Rail's continued refocus on community involvement resulted in the channelling of funds into two areas:

- Rail safety is a mandatory focus area and falls within the CSI Programme because of its link to communities located next to railway lines. Freight Rail spent R10,5 million on external rail safety initiatives in 2006; and
- HIV/Aids interventions accounted for approximately R6 million of Freight Rail's CSI expenditure in this year. Freight Rail supports the Deputy President's "Partnership against Aids", by running an annual partnership train which brings together HIV/Aids service organisation representatives, health care workers and people living with HIV/Aids. Freight Rail also collaborates with the Department of Health by running similar trains in observance of World Aids Day.

Community impact and public health and safety

Public health and safety is of paramount importance. Injuries and loss of life are never acceptable and Freight Rail is committed to reducing the number of accidents and fatalities in the year ahead. The public fatalities during the year declined by 13% compared to the previous year.

Level crossing incidents show a declining trend, in part as a consequence of the public awareness campaign undertaken in Freight Rail.

Public fatalities	**2007**	2006	2005
Fatalities on premises (criminal activity and suicide excluded)	**161**	185	199
Road traffic (public roads)	**–**	–	10
Total	**161**	185	209

Management is deeply concerned by the above fatalities and each is investigated in depth. Accordingly, the dynamic safety plan is amended taking into account what we have learned and receives constant focus at the Group and Divisional Executive Committees.

MANAGING OUR ENVIRONMENT RESPONSIBLY

In managing the environmental impacts of its business activities, Freight Rail is guided by an environmental management system (EMS), which is in line with the ISO 14001 International Standard. The system enables Freight Rail to formulate appropriate policies and programmes as well as to set environmental targets and objectives while taking into account ever-changing legislative requirements, business operational requirements and functional processes.

Some of the achievements to date include the compilation of the EMS procedure manual; independent review of the EMS scope and documentation, updating of the Freight Rail Environmental Aspects Register, review of the environmental response and site rehabilitation guidelines, revision of the Internal Audit checklists and guidelines and assessment criteria for the sites earmarked for the scrapping of redundant rolling stock. Environmental awareness training was conducted at all levels at Freight Rail.

PROSPECTS

Committing to stakeholder value

The operation of a safe, scheduled and commercially sustainable freight railway remains Freight Rail's key objective.

To achieve this, the business is committed to addressing the needs of its customers, with dedicated teams being established to focus on improving customer relationships. Through this focus, Freight Rail anticipates increasing its market share and thereby achieving substantial revenue growth.

To ensure improved service reliability, planned capital expenditure has increased both for rolling stock and for infrastructure. This increase will address key priorities and will focus on scheduled repairs and maintenance planning.

Human capital plans are being reviewed to improve the skills base, scheduling systems and crew management to ensure that the business has the necessary competencies to achieve its growth objectives.

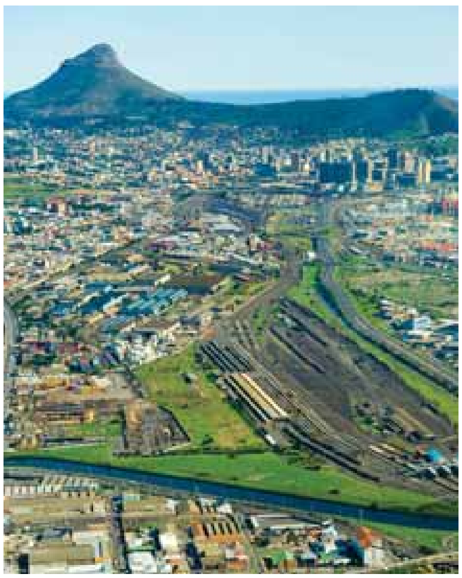
This will deliver the following results over the next five years:

- Transported volumes will increase substantially and rail's share of transportable GDP will increase accordingly;
- Financial returns will increase to more sustainable levels in line with the benefits of increased volumes and begin to track favourably with global railways;
- Freight Rail's service levels will be returned to appropriate standards; and
- Freight Rail will contribute positively to the efficiency of the logistics system of South Africa.

Capital expenditure in the past year increased to R7,3 billion, mainly to address under-investment of the past

Freight Rail plans to spend more than R24 billion over the next five years on its general freight business

The total number of injuries and occupational diseases dropped 14% compared to last year



TRANSNET rail engineering

Rail Engineering's Vandyksdrift wagon maintenance depot received the highest safety award for the eighth consecutive year

Technology is fundamental to Rail Engineering's operations and productivity

Financial overview	**Year ended 31 March 2007 R million**	Year ended 31 March 2006 R million	% change
Salient features			
Revenue	**7 317**	3 845	90
EBITDA	**1 088**	738	47
Depreciation and amortisation	**114**	66	73
Operating profit	**944**	671	41
Profit before taxation	**893**	676	32
Net asset value	**2 007**	1 390	44
Managed assets	**1 346**	901	49
Profitability measures			
Operating margin (%)	**12,9**	17,4	(26)
Return on net assets (%)	**44,5**	48,6	(9)
Return on managed assets (%)	**70,1**	74,4	(6)
Capital expenditure			
Total	**623**	189	230
Employees			
Number of employees	**13 729**	6 418	114
Revenue per employee	**0,53**	0,60	(12)

Revenue up
90% to
R7,3 billion

EBITDA up
47%

Five-year capital
expenditure plan
R4,1 billion

KEY PERFORMANCE INDICATORS (KPIs) – RAIL ENGINEERING

		2007 Target	**2007 Actual**	Performance	2008 Target	% change vs actual
Financial						
Revenue (R million)		5 241	**7 317**	Achieved	7 566	3
EBITDA (R million)		1 118	**1 088**	Not achieved	997	(9)
Infrastructure						
Capital expenditure (R million)		375	**623**	Achieved	669	7
Efficiency						
Locomotive reliability	General freight (%)	37,3	**48,0**	Achieved	48,0	–
	Coal (%)	28,3	**43,0**	Achieved	50,0	16
	Iron ore (%)	18,5	**57,0**	Achieved	57,0	–
Locomotive availability	General freight (%)	82,2	**85,0**	Achieved	85	–
	Coal (%)	88,0	**85,2**	Not achieved	89	4
	Iron ore (%)	81,1	**85,9**	Achieved	86	–

BUSINESS OVERVIEW

Transnet Rail Engineering (Rail Engineering) is an operating division of Transnet specialising in the maintenance, upgrading and manufacture of wagons, coaches, rolling stock components and associated transport equipment as well as in the maintenance and upgrading of locomotives through its 151 sites and six main centres countrywide.

The number of employees within Rail Engineering increased by 114% during the year due largely to the integration of 6 253 Freight Rail Rolling Maintenance employees into the division. The staff complement in March 2007 was 13 729.

Freight Rail and the South African Railway Commuter Corporation (SARCC) are Rail Engineering's main customers but products and services are supplied to railways in Africa and abroad.

Rail Engineering's vision is to be a world-class provider of quality, cost effective total rail rolling stock engineering.

Performance highlights

The following operational highlights were recorded during the year:

- Revenue increased by 90% to R7 317 million.
- Operating profit increased by 41% to R944 million.
- Procurement from black economic empowerment (BEE) firms increased from R729 million in the previous year, to R995 million this year.
- Rail Engineering successfully integrated the Freight Rail maintenance operation into the organisation.
- Reliability and availability of rolling stock on the coal and iron ore lines were significantly improved.
- Rail Engineering continued to develop the upgraded 10M5 commuter passenger train sets.
- The annual number of wagon maintenance liftings increased from 12 000 to 20 000.

ACHIEVING RETURNS GREATER THAN THE COST OF CAPITAL

Financial performance

Revenue and production volumes increased to 86% and 91% respectively and as a result revenue increased by 90% from R3 845 million in the previous year to R7 317 million. This increase was partly due to Rail Engineering's integration of Transnet Freight and Rail's maintenance operation.

The operating profit increased by 41% from R671 million in the previous year to R944 million, which can be attributed to improved internal controls, better governance structures and various cost-saving initiatives.

Utilisation of assets increased during the year due to improvement in controls over various processes.

In an effort to improve efficiency and generate positive returns, all maintenance depots will be integrated from cost centres into the various operational businesses.

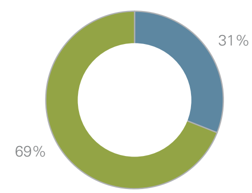
Marketplace and customer management

Rail Engineering is structured into eight product-focused businesses to better service its customers' specific needs. The businesses are:

- Locomotive;
- Coach;
- Wagon building;
- Rail freight wagon refurbishing (RFR);
- Rotating machines;
- Rolling stock equipment;
- Wheels; and
- Tarpaulins.

These businesses focus on market requirements and opportunities, including:

- Increasing manufacturing capacity for the construction of new wagons to serve the growth in iron ore and coal volumes;
- Upgrading and manufacturing locomotives to meet the higher demand on tractive effort;
- Improving technology in commuter train sets to raise the level of passenger comfort and safety;
- Establishing new partnerships with local and international original-equipment manufacturers (OEMs) to expand strategic capabilities in diesel engine remanufacture, bogies and locomotive electrical control systems;
- Expanding logistic and support services to serve the railway



2007 BEE procurement

BEE procurement	R995 million
Non-BEE procurement	R3 166 million

auxiliary equipment market in Southern Africa; and
- Developing over-border locomotive maintenance facilities to assist neighbouring rail operators.

During the year, Rail Engineering doubled the output of new wagons to 1 022 units and delivered the new 10M5 commuter train sets. The Company, moreover, integrated Freight Rail's entire locomotive, wagon and coach maintenance operations into its structure.

Customer alignment and assessment through routine surveys are ongoing. Where required, Rail Engineering's customer-service employees are positioned in the operational structure of Freight Rail to gain a better understanding of customer needs.

Operations management

Performance highlights for the year include:
- Successfully integrating Freight Rail's maintenance operation into Rail Engineering;
- Achieving a record production of 1 022 new iron ore and coal wagons;
- Upgrading 65 class 6E1 to class 18E locomotives;
- Upgrading 80-ton CR-S wagons to 120-ton CR-14s;
- Completing a new octane tank wagon design;
- Vandyksdrift wagon maintenance depot received the NOSCAR award (highest safety award) for the eighth consecutive year; and
- Launching the 10M5 commuter train sets.

Supply management and BBBEE

The total procurement expenditure for the year was R3 166 million for Rail Engineering Centres, of which R995 million (31%) was spent on black empowered companies. Businesses owned by black women will be given more consideration during the next year to meet the newly gazetted BBBEE requirements.

The savings for the year as a result of divisional initiatives amount to R117 million, of which R69 million is based on call-offs from long-term contracts, whilst other procurement activities yielded savings of R48 million. In addition, numerous contracts driven from the Vulindlela procurement initiatives are beginning to show tangible results, which created the opportunity for further cost reductions of R56 million, the most notable being savings on transport and production material.

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

During the year Rail Engineering continued to engage its key stakeholders such as Freight Rail and SARCC as well as manufacturers and product specialists across the globe. Rail Engineering management is committed to the continuous improvement of the Company's ability to respond to different economic, environmental needs, while ensuring all stakeholders benefit from engagement efforts.

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

Rail Engineering is firmly committed to corporate governance and has adopted a proactive approach to risk management in line with the King II Code of Corporate Governance, the Companies Act and the Public Finance Management Act.

During the year Rail Engineering further embedded sound governance principles within the organisation by implementing local corporate governance committees at all its centres. Strong corporate governance principles underscore the implementation of Transnet's fraud prevention strategy.

Strategic direction

Rail Engineering supports Freight Rail in the provision of a rolling-stock equipment service. This service is delivered through the running of strategically positioned depots and factories and the alignment of service delivery priorities with Freight Rail's national operations requirements. Rail Engineering continuously strives to improve and increase service efficiency and rolling stock quality in an effort to reduce the cost of rail transport in South Africa.

Rail Engineering's strategic objectives include:
- Continuation of the principle of product-focused businesses;
- Customer alignment – Integrated planning between

Freight Rail's National Operation Centre and Rail Engineering – focus on critical flows especially GFB and full alignment with Freight Rail's rolling stock plans;
- Enhancement of strategic capability and capacity
- Reengineering to improve efficiencies through implementation of effective production control mechanisms, and of a daily production delivery report to manage the output of rolling stock. It includes modernising equipment/infrastructure and technology and lowering the cost of production throughput by making use of smarter technology, leveraging core competencies and use of extended squad work to increase the effect of skilled staff and the transfer of technology and know-how through OEM partnerships;
- The maintenance of quality control and quality assurance systems, non-conformance reporting (NCR) software to establish root causes of failures and introduction of timely corrective measures so as to reduce costs and increase product reliability;
- Improve supply management, enter into strategic alliances with key suppliers, update procurement procedures; and
- Increase volumes through optimising existing production lines (eg increasing the production rate on the wagon build line in Bloemfontein to 1 500 units per year).
- Engineering/product development – aiming at expanding technology and intellectual property subsisting in the product range through:
  - Product research;
  - Developing new specifications (product, components and material);
  - Product design and development – eg the all new 11M metro trains;
  - Processes documentation;
  - Industrialisation of production lines; and
  - Update of product handbooks, manuals and catalogues;
- Restructure within locomotive, RFR (wagon refurbishing) and coach businesses to achieve optimised integrated maintenance for high availability and reliability of rolling stock and refine business systems – ICT project to convert maintenance depots from cost centres to the Rail Engineering business model;
- Reduction of the rolling stock maintenance backlog;
- Development of BBBEE in procurement;
- Capital investment in infrastructure, equipment, technology and systems coupled with project management to achieve execution and completion of the capital expenditure plans; and
- Develop human capital (competency, skills training, recruitment), harmonise the human capital policies with Transnet policy, complete job evaluation programme, execute the Skills Development and Employment Equity Plans and talent management for staff development and retention.

Risk management

Rail Engineering is committed to good corporate governance and vigilant risk management through the vigorous implementation of the holistic and consistent ERM Framework. During the year further resources were provided to embed and sustain the ERM culture throughout Rail Engineering's operations, including the newly integrated maintenance depots.

Risk assessment workshops have been conducted at corporate office, functional support services, national, regional and local businesses for identification of risks and management thereof.

Key risks at Rail Engineering	Rail Engineering's planned response
Operational safety	Enhancing discipline and consequence management. Heightening senior management's visibility and participation in SHEQ campaigns Training all employees in safety issues. Performing regular audits and implementing recommendations. Conducting major incidents investigations by senior management and ensuring corrective action.
Maintenance regime (achievability of availability and reliability targets)	Reviewing quality control system and ensuring non-conformance is reported and corrective action promptly taken. Improving relationships with main suppliers eg of critical components, assets, equipment to ensure planned and unplanned maintenance is achieved. Ensuring adherence to maintenance plans.
Skills development and retention	Implementing the Talent Management Framework to ensure critical skills are managed on a sustainable basis. Driving and managing performance culture by implementing an effective performance management and incentive system. Constant industry analysis to inform remuneration changes. Maintaining the Student Bursary Scheme (SBS).

DEVELOPING WORLD-CLASS INFRASTRUCTURE

Engineering infrastructure

Technology is fundamental to Rail Engineering's business. As such, the Company establishes relationships with original equipment manufacturers and railway engineering specialists across the globe.

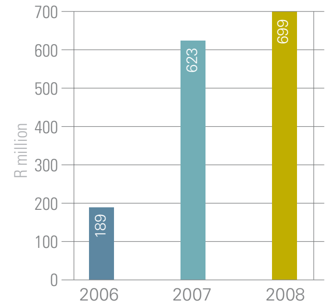
The integration of Freight Rail Maintenance and Rail Engineering further enhanced the engineering capabilities of Rail Engineering as the engineering fraternities of both operating divisions have been combined. This has resulted in a stronger grouping that focuses on enhancing reliability and availability of Freight Rail's rolling-stock fleet.

New technologies are being introduced to address obsolescence in the rolling-stock manufacturing and refurbishment environment. These range from technologies to replace single components to major upgrades of locomotives in collaboration with original equipment manufacturers.

Because of new technologies used in rolling-stock design, a Skills Engineering department was introduced to ensure that the latest technical skills are integrated into the curricula of the various trades.

Leading practices in engineering are incorporated into Rail Engineering's growing product portfolio. In addition to its own in-house design office, which was also enhanced by the integration with Freight Rail Maintenance, Rail Engineering has access to external specialist design companies to acquire the designs and know-how for developing new rolling stock.

During the year the 10M5 trains set, a 'clear-the-deck' (removing all components and the superstructure above the floor and replacing it with new) upgrade of the 5M2A, was introduced. It soon became the norm for future suburban rolling stock of the SARCC. These train sets were launched in KwaZulu-Natal and Gauteng during the year. Rail Engineering has now established three strategic sites to produce the 10M5: Durban, Koedoespoort and Salt River.



Capital expenditure

During the year, Rail Engineering placed added emphasis on quality to ensure sustainable reliability and availability of Freight Rail rolling-stock fleet. As a result, quality management systems were introduced in the maintenance depots taken over from Freight Rail on a pilot basis, with an emphasis on product quality. The quality management system will be rolled out to remaining maintenance depots during the coming year.

The local businesses within the Rail Engineering workshops also completed successful ISO 9001(2000) accreditation audits during the last quarter of the year to retain their accreditation.

Capital investment
Capital spending for the year amounted to R623 million compared to R189 million in the previous year. This significant increase in capital expenditure is mainly attributable to the integration with Freight Rail Maintenance.

The capital expenditure for the 2008 includes:

Projects	R million
Purchase of machinery and equipment	355
Upgrade of facilities	210
Other projects	134
Total	**699**

Rail Engineering has planned for the following capital expenditure over the coming five years:

Projects	R million
Purchase of machinery and equipment	2 043
Upgrade of facilities	1 071
Other projects	967
Total	**4 081**

Information and communication technology
Integration
During the year Rail Engineering ICT played a significant role in the rolling stock maintenance integration project to migrate the Freight Rail Maintenance systems into Rail Engineering. The migration involved SAP human resource and logistics-finance systems, with the integration team successfully migrating the live Freight Rail SAP ERP 2004 version system to the Rail Engineering platform. This resulted in an 88% productivity increase among system users in Rail Engineering. ICT costs in Rail Engineering were 1,2% of Rail Engineering's total revenue of R7,3 billion during the year, which is still below the accepted benchmark of 3% adopted by Transnet. Rail Engineering yielded significant benefits in leveraging economies of scale for supporting the additional users with minimum increase in ICT resources. This has contributed to Rail Engineering's cost-containment initiatives, in line with the priorities set by Transnet Group ICT.

Migration
In March 2007 Rail Engineering ICT successfully migrated the SAP human resource and logistics-finance systems from the HP Dec Tru64 platform to the IBM AIX platform. This was a prerequisite for the merger of various Rail Engineering systems, referred to internally as the "the big bang project". The new IBM platform provides superior system performance in terms of the transaction processing speed to support key business processes.

Performance has improved significantly compared to task execution timeframes prior to the platform migration. Rail Engineering has aligned its ICT strategy with that of Transnet ICT to standardise all SAP systems on IBM platform/servers within the Group.

Rail Engineering achieved success in merging the Rail Engineering Maintenance SAP systems (former Freight Rail Maintenance systems) into the Rail Engineering main SAP systems. The new revenue-based plant maintenance process model, which uses a service order for the sales process, was developed for the maintenance depots.

General ICT
Rail Engineering ICT had a total staff complement of 70 this year. The internal ICT business of Rail Engineering has attracted and retained the requisite skills to support all the ICT requirements of the business, thereby eliminating the need for external assistance.

CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

People management

The number of employees within Rail Engineering increased by 114% during the year. This increase was due to the integration of 6 253 Freight Rail rolling stock maintenance employees into Rail Engineering and the resulting increase in business activity, tabled as follows:

Rail Engineering will focus on the following key human capital challenges in the coming year:

- Developing core competencies required to achieve Rail Engineering business objectives;
- Ensuring effective management and retention of key talent;
- Developing leadership with appropriate competencies and values to drive Transnet's broader strategy and culture;
- Creating an enabling environment that ensures harmonious working relationships through stable employee relations and employee wellbeing interventions;
- Aligning and streamlining all human capital policies, processes, systems and structures; and
- Developing capacity within Rail Engineering to ensure full integration and assimilation of the Transnet culture.

Change, transformation and culture

The integration of Freight Rail rolling stock maintenance personnel and workshops was Rail Engineering's most significant challenge during the year. This process entailed the synchronisation of systems and the revision of conditions of employment, policies and processes between Rail Engineering and Freight Rail maintenance employees. As a result of the implementation of effective change management procedures the integration process proceeded with minimum disruptions – both operationally and from a labour relations perspective.

Skills development

During the year Rail Engineering placed a significant emphasis on skills development, focusing on critical technical skills. Student numbers increased from 526 in 2006 to 986 at the end of March 2007. During the year, 214 students completed their training as qualified artisans and were deployed into the various businesses within Rail Engineering. The goal for the year was to have trained a minimum of 1 000 Student Bursary Scheme trainees, thereby contributing

Employment equity

Rail Engineering is committed to employment equity. As at 31 March 2007, black employees constituted 70% of the Rail Engineering staff complement.

	Asian (A)		African (B)		Coloured (C)		Black (A+B+C)		White		Total		Total
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Management	7	41	96	178	12	39	115	258	21	325	136	583	719
Non-managerial	24	206	935	6 922	147	986	1 106	8 114	258	3 532	1 364	11 646	13 010
Total – 2007	**31**	**247**	**1 031**	**7 100**	**159**	**1 025**	**1 221**	**8 372**	**279**	**3 857**	**1 500**	**12 229**	**13 729**
	0%	**2%**	**8%**	**52%**	**1%**	**7%**	**9%**	**61%**	**2%**	**28%**	**11%**	**89%**	**100%**
Management	4	23	62	78	12	20	78	121	14	182	92	303	395
Non-managerial	4	113	425	2 989	68	415	497	3 517	129	1 880	626	5 397	6 023
Total – 2006	8	136	487	3 067	80	435	575	3 638	143	2 062	718	5 700	6 418
	0%	2%	8%	48%	1%	7%	9%	57%	2%	32%	11%	89%	100%

F = Female M = Male

to the availability of critical skills to meet future requirements. This goal was exceeded by 200 students. The training department is currently assessing and recruiting new students.

Skills development	2007 R million	2006 R million
Training, bursaries and grants	**46**	25
% of payroll costs (%)	**2,0**	2,4

Talent management
During the year Rail Engineering launched its talent-management programme. The programme aims to manage and retain key talent effectively. The Talent Framework was developed and adopted by Rail Engineering's Executive Committee (Exco). Additional capacity building initiatives have provided all human capital practitioners with the capacity to manage this process. As at 31 March 2007, 60% of all managers have been trained. In the year ahead, Rail Engineering will conclude this training and aim to establish talent forums throughout Rail Engineering.

Performance management and reward
Rail Engineering's Performance Management System was successfully implemented during the year. The system is geared to enhance employee performance and productivity. All non-bargaining employees have received the requisite training. Managers have concluded their key performance agreements and strategic-performance objectives (SPOs). Future challenges include conducting the final performance reviews and training all managers and HR practitioners in handling both poor and superior performance.

The current Rail Engineering gain-sharing incentive scheme for the bargaining unit was extended to the newly-integrated employees (former Freight Rail) in October 2006. They received their first gain-share payments in January 2007.

The scheme continues to play a pivotal role in enhancing the performance and productivity of Rail Engineering employees.

Human resource enablement
Rail Engineering focused on the development of its human capital systems during the year to support sound human capital decision making. The development process also included the redesign of Rail Engineering's organisational structure to integrate with the former Freight Rail maintenance structures and alignment with the two SAP payroll systems with effect from 1 April 2007.

The challenge in the year ahead is to implement the SAP time and events module and other SAP CHR related modules.

Employee relations
Several employee relation initiatives were launched during the year. The Transnet Exco approved a number of HR policies. A communication plan is in place to roll out these policies in Rail Engineering.

Training in disciplinary management continued and approximately 70% of Rail Engineering's line managers had received training by the end of March 2007.

An extensive absenteeism programme is under way to improve the management and control of employee absenteeism across Rail Engineering.

Employee wellness and HIV/Aids
The SHEQ management system at Rail Engineering also governs the management of employee health.

Rail Engineering has a comprehensive lifestyle management programme (LMP) in place, as well as voluntary HIV counselling and testing (VCT) programme to expand HIV/Aids awareness and to support employees infected with the disease. During the year 80% of the total workforce was trained in HIV/Aids management and the Transnet lifestyle management programme (LMP), while 60% of employees participated in the VCT programme, reflecting the success of the HIV/Aids campaign.
The number of employees participating in the LMP increased significantly in the year.

SHEQ performance Indicator	Target 2008	**Actual 2007**	Actual 2006	Actual 2005
Cost of risk as % of revenue (%)	1,20	**1,31**	1,20	1,62
DIFR	1,50	**1,77**	2,60	2,14
NOSA rating (%)	80	**75**	70	65

Rail Engineering employee fatalities	**2007**	2006	2005
Fatalities on premises (suicide excluded)			
Injuries	**1**	–	–
Diseases	**–**	–	–
Road traffic (public roads)	**1**	–	–
Total	**2**	–	–

Employee safety
Safety in the everyday operations at Rail Engineering has a direct impact on employees and the public (for public safety refer below). Safety is an integral part of the overall SHEQ management system. Strong focus is also given to contractors' adherence to health and safety protocols.

The integration of Rail Engineering's maintenance depots necessitated rigorous and improved safety awareness and competency levels. As a result thereof Rail Engineering maintained high safety performance levels during the year. Safety performance is constantly monitored and managed with employees receiving regular training in operational health and safety awareness and proficiency. During the year specific emphasis was also given to meeting the requirement of the National Railway Safety Regulator Act, 16 of 2002, and its regulations.

CARING FOR THE COMMUNITIES WHERE WE OPERATE

Corporate social investment (CSI)
Rail Engineering has embarked on strategic corporate social investment programmes and believes in making a positive impact on the lives of communities in its area of operation. The Company is also committed to the responsible management of environmental and social impacts resulting from its operational activities. This includes partnering with communities and other development agencies to help foster sustainable community development.

During the year, Rail Engineering allocated a portion of its CSI budget to the maintenance of the Transnet Foundation's Phelophepa healthcare train. This formed part of Rail Engineering's contribution to the 16-coach train which delivers comprehensive, affordable and accessible healthcare to communities with no health services or with poor healthcare infrastructure.

Rail Engineering also continued to support the Saints wheelchair basketball team, the Northern Titans deaf cricket week, the Blue Bulls Youth Club development programme and the Tshwane Youth Orchestra.

Rail Engineering has a moral and legal duty to ensure the health and safety of all employees. This obligation also extends to the health and safety of clients and the communities in which they operate. We are pleased to report that no public fatalities have occurred as a result of Rail Engineering's operations since 2001.

Community impact and public health and safety
At Rail Engineering the health and safety of clients and the communities in which it operates form part of broader risk management. No public fatalities have occurred as a result of Rail Engineering's operations since 2001.

MANAGING OUR ENVIRONMENT RESPONSIBLY

At Rail Engineering, focus on environmental issues is an integral part of overall SHEQ management. During the year a concerted effort to minimise its environmental impact resulted in the further rehabilitation of polluted sites and the implementation of preventative measures. Regular environmental impact assessments (EIAs) are being performed at all plants and maintenance depots.

PROSPECTS

Committing to stakeholder value

Rail Engineering aims to develop a South African rail industry in which all supply chain participants – both local and international – can operate seamlessly and synergistically, thereby culminating in the formation of an effective and efficient rail service to the benefit of the overall economy.

In anticipation of the potential build-up in transportation demand ahead of 2010, Rail Engineering will focus on the design and development of the next generation of electric commuter coaches and will fast-track production capacity and technology improvements in the manufacture of 10M5 passenger coaches.

Skills training programmes, particularly those relating to technical competencies, will be an important focus area for Rail Engineering in the year ahead. This will be coupled with specific OEM partnerships to transfer skills and technology for new rolling stock projects.

Locomotive building capacity is currently being expanded to meet the growing demand and the integration of Freight Rail's Auxiliary Equipment structure into Rail Engineering is scheduled to take place during 2007.

Smarter technology and proper training help reduce production costs

The wheel business is one of the division's eight product-focused businesses

TRANSNET

national ports authority

Transnet National Ports Authority bought two tug boats for the Durban Port during the year

National Ports Authority plans to spend approximately R18,5 billion in the next five years upgrading infrastructure in the seven ports it manages

Financial overview	**March 2007 R million**	March 2006 R million	% change
Salient features			
Revenue	**6 107**	5 438	12
Depreciation and amortisation	**418**	439	(5)
EBITDA	**4 627**	4 242	9
Operating profit	**4 484**	4 075	10
Profit before taxation	**4 346**	3 732	16
Net asset value	**17 484**	14 627	20
Managed assets	**17 976**	15 693	15
Profitability measures			
Operating margin (%)	**73,4**	74,9	(2)
Return on net assets (%)	**24,9**	25,5	(2)
Return on managed assets (%)	**24,9**	26	(4)
Capital expenditure			
Total	**1 026**	783	31
Employees			
Number of employees	**3 251**	3 236	0,4
Revenue per employee	**1,88**	1,68	12

Revenue up
12% to
R6,1 billion

EBITDA up
9%

Five-year capital
expenditure plan
R18,5 billion

KEY PERFORMANCE INDICATORS (KPIs) – NATIONAL PORTS AUTHORITY

	2007 Target	**2007 Actual**	Performance	2008 Target	% change vs actual
Financial					
Revenue (R million)	5 915	**6 107**	Achieved	6 881	13
EBITDA (R million)	4 383	**4 627**	Achieved	5 125	11
Infrastructure					
Capital expenditure (R million)	1 964	**1 026**	Not achieved	3 949	285
Efficiency					
Berth Occupancy (%)	58,9	**66,0**	Achieved	66,0	–

BUSINESS OVERVIEW

Transnet National Ports Authority (National Ports Authority) is responsible for the safe, efficient and effective economic functioning of the national ports system which it manages, controls and administers on behalf of the South African Government. National Ports Authority's core services as stipulated in section 11 of the National Ports Act, 12 of 2005, are:

- The planning, provision, maintenance and improvement of port infrastructure, including breakwaters, seawalls, channels, basins, quay walls, jetties, roads, railways and the infrastructure used for the provision of water, lights, power, sewerage and similar services;
- The provision or coordination of marine-related services including pilotage, tug services and berthing; and
- The provision of port services, including the management of port activities and the port regulatory function at all South African ports.

National Ports Authority provides its services to port users. These include terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry.

National Ports Authority owns and manages the seven ports within South Africa: Saldanha Bay, Cape Town (including Port Nolloth), Mossel Bay, East London, Port Elizabeth, Durban and Richards Bay. The Port of Ngqura, currently under construction, is the eighth port under National Ports Authority's control.

The National Ports Act became effective on 26 November 2006, ushering in a new regulatory regime for South Africa's ports requiring the National Ports Authority to fulfil various statutory obligations and to become subjected to oversight by an independent ports regulator. During the latter part of the year leading into the new year, National Ports Authority reviewed its current processes and practices in ensuring that the division is compliant with the requirements of the Act.

Performance highlights

Revenue increased by 12% to R6 107 million, compared to R5 438 million in the previous year. Operating profit increased by 10%, to R4 484 million from R4 075 million.

The following operational achievements were recorded during the year:

- The widening and deepening of the Durban entrance channel was approved and preparatory works commenced;
  The contract for the remaining civil works required for the port of Ngqura phase 1 was awarded, and progress is on schedule for completion by 2008;
- A capital-management projects office was established;
- Specific targets and measurements of vessel changeover time were instituted at the Durban Container Terminal as part of the Vulindlela programme;
- Leading-practice capital management processes were introduced to manage capital projects effectively during the execution of the capital plan;
- 14% growth in containers and vehicles handled increasing by 25%;
- Customer service centres were established at the ports of East London and Cape Town;
- The first release of PortsOnline was delivered to the ports of Port Elizabeth, East London, and Mossel Bay. These ports are now able to submit cargo documents electronically to National Ports Authority;
- National Ports Authority implemented key performance indicators (KPIs) at all the ports;
- The Ports Act alignment programme was initiated to prepare and equip National Ports Authority to meet the promulgations of the Ports Act and Ports Regulator;
- An employee wellbeing programme was launched;
- The marine pilot training programme was expanded and now has 12 trainees;
- An agreement to sponsor a chair (learnership) for port and coastal engineering was concluded with the University of Stellenbosch;
- Increase in oil and gas activities has resulted in oil rigs being handled at the Port of Cape Town;
- Implementation of human capital development initiatives in accordance with the Transnet strategy;
- The Port of Durban has contributed significantly towards the achievement of savings as per the Vulindlela strategic sourcing initiative;

- A 99,97% availability of the lighthouses was achieved during the year, against a recommended availability of 99,8% of IALA (International Association of Marine Aids to Navigation and Lighthouse Authorities); and
- Light House Services (LHS) signed a cooperation agreement with Malawi, for the provision of aids to navigation. LHS was also contracted to provide and install AtoN equipment for the Moma Jetty in Mozambique.

ACHIEVING RETURNS GREATER THAN THE COST OF CAPITAL

Financial management

Financial performance

Revenue increased by R669 million or 12%, which includes an average tariff increase of 1,3% and a volume increase of 15,5%. This is mainly as a result of increased volume activity amounting to R539 million and increases of R20 million in marine services (pilotage, berthing, floating craft).

Operating cost before depreciation and amortisation increased by R283 million or 24%. These costs include an additional research and development cost of R35 million and an additional cost of R26,5 million for dredging maintenance.

Accounting for investment property in terms of IAS 40 has contributed R292 million to the year's operating profit.

Return on net asset value decreased from 25,5% to 24,9%.

Marketplace and customer management

Unlike most European ports, each South African port has a natural hinterland with a defined market that largely determines the nature and types of cargo handled.

The seven operating commercial ports managed and controlled by National Ports Authority on a 2 954 km coastline form an integral part of South Africa's transport network. They are linked to the road and rail systems that serve the interior of the country and extend beyond its borders. Road hauliers operate between the South African ports and into neighbouring African countries, complementing the regular rail services, while coastal feeder services provide for coastwise traffic.

In addition, National Ports Authority is playing a pivotal role in international trade through the provision of suitable infrastructure ahead of demand. National Ports Authority held various marketing and promotional activities for each port and hosted international port delegations mainly from the USA, China, Korea and Europe. This provides customers with access to suitable foreign ports of final destination. Through this promotion National Ports Authority has also instituted numerous 'sister port' agreements, facilitating information sharing between the South African ports and other ports worldwide.

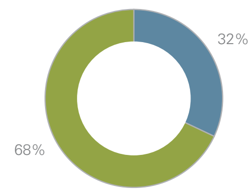
Operations management

The National Ports Authority operations plan outlines National Ports Authority's actions in the year ahead to improve port operations in the following areas.

- Operational efficiency: The draft Terminal Operations Agreement has been completed. The document contains efficiency measures and facilitates the measuring of operational efficiencies at terminals as well as marine services on a monthly basis.
- The five-year investment plan has been updated. The revised plan addresses operational needs, the improvement and replacement of obsolescent equipment and infrastructure, and the provision of additional cargo handling capacity to satisfy growing demands.
- Communication platform: Publications, media briefings and communications plans have been initiated.
- Cargo and information flows: A National Ports Authority web portal has been developed to facilitate a paperless port environment.
- Customer service centres: The design of customer service centres for all ports has been completed and implemented at Durban, East London, Port Elizabeth and Cape Town.
- Safety and security: Phase 1 of the upgrades has been completed at all ports.

Supply management and BBBEE

National Ports Authority's supply management focuses on the communication of the strategic direction of procurement within the organisation and ensures good governance. It also institutionalises



2007 BEE procurement

BEE procurement	R330 million
Non-BEE procurement	R700 million

the integration of efficient sourcing activities to deliver optimal supply chain value.

In line with supply management policies formulated by Transnet in the new Group policy framework, National Ports Authority has introduced changes to enhance productivity within its procurement processes. National Ports Authority is currently implementing ISO standards to support compliance, establish contracts and service level agreements to curtail spending and enhance service value. In this way National Ports Authority is aligning all procurement objectives with Transnet's strategy and timelines.

National Ports Authority management is committed to address operational challenges proactively in the coming year. These include the adherence to proper procurement procedures so as to foster a better culture of compliance and to facilitate the roll-out of standardised reporting structures.

National Ports Authority has successfully sustained its business in view of radical social transformation since 1994. Not only has the Company reformed its staffing profile in line with broad-based black economic empowerment (BBBEE), but it has also restructured its business processes to meet the challenges of the 21st century with efficiency, advanced technology and world-class standards.

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

National Ports Authority is dedicated to sound corporate governance compliant with the King II Code of Corporate Governance, the Companies Act and the Public Finance Management Act (PFMA). No contraventions of the PFMA were reported to management during the year.

Strategic direction

National Ports Authority's strategic objectives for the next year include:

- Maintaining and growing national port infrastructure, by expanding resource capacity to harness domestic and international trade growth opportunities, while reducing the costs of port management. Strategic imperatives in achieving this objective include:
  - Optimising institutional processes for effective performance and delivery;
  - Developing human capital potential by initiating marine operations learnerships, implementing engineering career ladders and establishing the Port Academy School of Ports;
  - Increasing financial capacity to afford and fund the capital investment programme;
  - Introducing a capital management projects office;
  - Implementing key performance indicator (KPI) management to measure operational performance;
  - Implementing an HIV/Aids awareness programme;
  - Preparing to fulfil the National Ports Authority's functions as set out in the National Ports Act, including the introduction of new systems for controlling port services through agreements, licences and permits, and for managing port property;
  - Preparing revised port rules to be issued in terms of the National Ports Act; and
  - Preparation for economic regulation of the ports by the Ports Regulator.
- Enhancing National Ports Authority's market position as a competitive international ports management entity through strategic value-add initiatives. Strategic imperatives in this regard include:
  - Implementing National Ports Authority's portal, *PortsOnline*;
  - Refining customer delivery and improving customer satisfaction;
  - Establishing customer service centres at all ports; and
  - Implementing a real estate strategy.

Risk management

National Ports Authority' risk management process is aligned with the ERM framework, which provides for a holistic and consistent approach to the identification, assessment, control and management of risks.

National Ports Authority thereby seeks to manage all risks by utilising opportunities to create benefits while effectively managing the potential downsides, therefore ensuring that shareholder value is enhanced.

Key risks at National Ports Authority	National Ports Authority's planned response
Regulatory risk	Alignment with the requirements of the National Ports Act through key stakeholder engagement on policy matters. Ensuring that National Ports Authority fulfils its function as a landlord.
Existing capacity constraints	Providing port infrastructure capacity ahead of demand by delivering capital projects on time. Increase asset utilisation. Measuring and monitoring the performance of port operators and service providers to ensure an efficient and effective port system.
Operational safety	Continuously review the standard operating procedures for relevance, adequacy and effectiveness. Implement business continuity management for emergencies and regular testing of contingency plans.
Skills development and retention	Ensure retention of critical skills such as procurement, project management, commercial and engineering through the implementation of the talent management framework. Roll-out of training by the Port Academy.

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

In line with the greater demand from stakeholders for corporate accountability, National Ports Authority honours its responsibilities towards individuals, the environment and the communities within which it operates.

As part of the Transnet Sustainability Platform the National Ports Authority Sustainability Steering Committee plays a key role in identifying both stakeholders and principle-issue areas.

Understanding the expectations of different stakeholders and engaging with them through regular, open communication and consultation, remains the basis for National Ports Authority's decision-making.

DEVELOPING WORLD-CLASS INFRASTRUCTURE

Port infrastructure

National Ports Authority's performance is underpinned by global trends and demands that necessitate the continuous upgrade and provision of infrastructure capacity and increased performance levels. World-class engineering technology, provision, maintenance and timely replacement enable this service delivery.

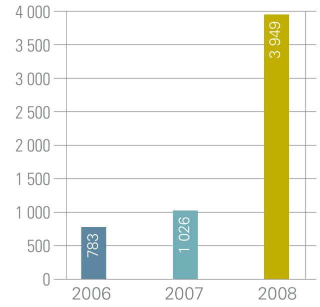
Apart from the high standards set for National Ports Authority's engineering technology, the division places emphasis on methodologies and goals for measuring infrastructure maintenance as set out in the Infrastructure Maintenance Manual (IMM). Maintenance programmes are prepared and approved at port level. Risk management focuses on safety, infrastructure availability, appearance, reliability, legal requirements, life-span and cost.

Capital investment

Capital spending for the year amounted to R1 026 million compared to R783 million in the previous year.

Whilst capital spending has improved compared to the previous year, the business experienced several setbacks. These include EIA challenges with regards to expanding the container terminal in Cape Town and delays in settling dispute claims for the Port of Ngqura.

The capital expenditure for the next year includes:



Capital expenditure

Projects	R million
Widening and deepening of Durban entrance channel	545
Pier 1 resurfacing and berth deepening: Durban	412
Acquisition of Salisbury Island for future port expansions	300
Y Site – Durban container terminal	110
Purchase of two tugs: Durban	95
Construction of Port Ngqura	287
Operationalising of Ngqura for containers	454
Expansion of Cape Town container terminal	466
Saldanha IOT execution Phase 1B expansion (1 to 47 mtpa)	111
Security Phase 2: All ports	108
Other projects	1 061
Total	**3 949**

National Ports Authority has planned for the following major capital expenditure over the next five years:

Port	R million
Richards Bay	826
Durban	7 633
East London	40
Ngqura	4 679
Port Elizabeth	33
Mossel Bay	17
Cape Town	3 798
Saldanha Bay	260
Marine services	1 000
Other projects	249
Total	**18 535**

Information and communications technology

National Ports Authority has instituted policies to govern logical access, security, change control and disaster recovery. During the year National Ports Authority participated in the Transnet Business Intelligence (TBI) Project aimed at defining a framework whereby management could significantly enhance the value of information in the Transnet Group.

The goals for the next reporting cycle include:

- Reconfiguring and integrating ICT platforms by implementing a web portal;
- Developing a seamless internal infrastructure logistics solution;
- Ensuring compliance with safety, security and environmental standards;
- Meeting PFMA and IFRS reporting requirements;
- Centralising IT and IT operations demand to optimise economies of scale;
- Simplifying National Ports Authority's infrastructure and adhering to Group hardware, operating systems and information standards to reduce cost;
- Improving the productivity of IT employees through the reengineering of IT processes and standards;
- Implementing a strategic enterprise management module at National Ports Authority in line with National Ports Authority's strategic initiatives;
- Reviewing, designing, implementing and enforcing an effective National Ports Authority IT sourcing strategy; and
- Consolidating and sharing information services across operating divisions to better manage risks and maximise revenue opportunities.

CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

People management

Employee numbers decreased by 1% during the year. The total staff complement amounts to 3 251 employees, excluding contract workers.

Employment equity

National Ports Authority is committed to employment equity. In National Ports Authority, employment equity does not happen in isolation but is an integrated activity and is implemented within the Transnet HR strategy, with more emphasis on talent management and capacity development. The framework to guide employment practices is achieved through the Employment Equity Act. In National Ports Authority black employees constitute 68% of the total staff complement. National Ports

Authority's female profile is 17% with 59% of management cadre represented by black managers of whom 23% are women.

Skills development
Whilst the availability of critical and scarce skills remains a challenge for National Ports Authority, the business has improved trainee requirements and is expanding the trainee pipeline. Skills development remains a strategic priority for the organisation, with a focus on building National Ports Authority's marine operations and engineering capabilities. This is particularly evident in the successful implementation of the integrated marine pilot training programme, which is administered in association with a Netherlands-based partner institution, STC (Shipping and Transport College). The introduction of engineering career ladders has resulted in a targeted approach to both employee development and succession planning in the infrastructure environment.

Skills development	**2007 R million**	2006 R million
Training, bursaries and grants	**29**	23
% of payroll costs (%)	**3,7**	3,4

Talent management
The roll-out of the Group human resource strategy gained momentum during the year, with talent management initiatives forming the foundation for targeted leadership development programmes.

Performance and reward
National Ports Authority is dedicated to developing a performance management and reward system that drives a high performance culture; is aligned with the current Transnet performance and reward programme and, handles non-compliance matters. The system will assist in managing poor performers and build a sustainable organisational performance culture.

To actualise this commitment, all National Ports Authority employees participate in biannual performance discussions and non-performers undergo a performance improvement process for six months. In-house training also plays a pivotal role in improving employee performance.

Human resource enablement
In the year ahead renewed emphasis will be placed on integrating the SAP HR software, which forms the backbone of National Ports Authority's human resource management systems.

Employee relations
National Ports Authority leadership is consciously aware of the risks and disruption associated with labour unrest. Every effort is made to comply with the Labour Relations Act and to open channels for employee involvement in decision making.

	Asian (A)		African (B)		Coloured (C)		Black (A+B+C)		White		Total		Total
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Management	28	89	134	161	31	91	193	341	16	358	209	699	908
Non-managerial	38	107	228	939	102	260	368	1 306	85	584	453	1 890	2 343
Total – 2007	**66**	**196**	**362**	**1 100**	**133**	**351**	**561**	**1 647**	**101**	**942**	**662**	**2 589**	**3 251**
	2%	**6%**	**11%**	**34%**	**4%**	**11%**	**17%**	**51%**	**3%**	**29%**	**20%**	**80%**	**100%**
Management	16	60	74	99	24	41	114	200	18	288	132	488	620
Non-managerial	90	160	222	950	140	312	452	1 422	143	599	595	2 021	2 616
Total – 2006	106	220	296	1 049	164	353	566	1 622	161	887	727	2 509	3 236
	3%	7%	9%	33%	5%	11%	17%	51%	5%	27%	22%	78%	100%

F = Female M = Male

Employee wellness and HIV/Aids
National Ports Authority has a comprehensive workplace health programme in place, focusing on occupational health and primary healthcare. It also offers a service to help employees manage personal and work related problems that could negatively impact their performance.

Occupational health and primary healthcare programme
The occupational health and primary healthcare programme relates to medical surveillance; appropriate staff placement and, ongoing maintenance of employee health.

Employee assistance programme (EAP)
The employee assistance programme (EAP) supports employees with personal and work related problems that adversely affect their performance. The EAP offers confidential services that provide proactive and reactive skills assistance for self-management. Consultation is provided to line management and labour to assist in dealing with troubled employees.

HIV/Aids management programme
The HIV/Aids Programme focuses on HIV as a chronic condition. To achieve lasting control over new infections within the Company. National Ports Authority is implementing an Aids Management System (AMS 16001), which formalises activities to review current practices. This system was developed as a response to an internationally recognised HIV management standard and will apply only to those HIV determinants which the organisation can control and influence. With introduction of this system, National Ports Authority will be able to improve its management of HIV-related risks as well as improve sustainability and business performance.

Employee safety
Safety at National Ports Authority is governed by the SHEQ policy in the interests of employees and the public (for public safety refer page 115).

National Ports Authority is in the process of integrating SHEQ management systems across the various ports. These include: EMS ISO 14001, OHSAS 18001 and AMS 16001 and are aimed at minimisation of risk impacts and facilitation of the continual improvement of performance quality. Systems are continuously monitored to facilitate proper implementation and ongoing improvement.

During the year, National Ports Authority performed within set SHEQ targets and was fully compliant with the Safety Act. In addition, National Ports Authority received several Transnet Safety Competition Awards as well as the acclaimed NOSA platinum five-star grading.

CARING FOR THE COMMUNITIES WHERE WE OPERATE

Corporate social investment (CSI)
National Ports Authority embarked on various social investment initiatives within communities close to each port, with a primary focus on education, environmental management and HIV/Aids.

Education
National Ports Authority's educational initiatives focus on schools that offer maritime studies. National Ports Authority's

SHEQ performance Indicator	Target 2008	**Actual 2007**	Actual 2006	Actual 2005
Cost of risk as % of revenue (%)	1,50	**1,66**	1,90	1,89
DIFR	1,00	**1,11**	1,10	1,26
NOSA rating (%)	90	**86**	89	87

National Ports Authority employee fatalities	**2007**	2006	2005
Fatalities on premises (suicide excluded)			
Injuries	**1**	–	2
Diseases	**–**	–	–
Road traffic (public roads)	**–**	–	–
Total	**1**	–	2

involvement ensures that communities benefit by improving levels of mathematics and science for students and teachers.

HIV/Aids

National Ports Authority's HIV/Aids awareness initiatives support community organisations that provide services and care to HIV/Aids infected community members. During the year National Ports Authority made a once-off donation of five vehicles to different communities. Non-monetary assistance by volunteering National Ports Authority employees served these organisations as part of the corporate social investment programme.

Community impact and public health and safety

National Ports Authority is consciously aware of the importance of monitoring and managing the impact of operations on the communities in which it operates. Public health and safety, therefore, forms an integral part of risk management.

Public fatalities

	2007	2006	2005
Fatalities on premises (criminal activity and suicide excluded)	**3**	1	1
Road traffic (public roads)	**–**	–	–
Total	**3**	1	1

MANAGING OUR ENVIRONMENT RESPONSIBLY

Environmental management

All ports started developing and implementing the Environmental Management System (EMS ISO 14001) as early as 2002 and most received certification by 2005.

The EIA process at National Ports Authority forms an integral part of any planned development with specific emphasis on engagement of interested and affected parties.

During the year, NPA supported programmes linked to the National Marine Week, allowing other community-based organisations to co-host programme events.

PROSPECTS

Committing to stakeholder value

During the year, South Africa experienced a business cycle upswing. This trend is expected to continue into the new year. National Ports Authority expects that performance in the containerised cargo market (full import and export) will grow by 8% in the coming year, with the market for empty containers growing at 15%. These expectations are predicated upon the following key assumptions:

- Continued positive economic climate and a stable exchange rate;
- The maintenance of real growth in household consumption expenditure of 6% well into the next year;
- An achievement of bulk cargo growth of 4%, mainly driven by coal and iron ore exports; and
- An expected growth of more than 10% in vehicle imports and exports.

National Ports Authority expects that business growth within the port system will be attained through improved collaboration and planning of operations that are focused on productivity monitoring and performance measurement, as agreed with other port users and service providers within the port system.

In the coming year, National Ports Authority will focus on the following initiatives to support the above market opportunities:

- Rolling out specific targets and measurements of vessel changeover times to other ports. These will be based on results attained at the port of Durban through the Vulindlela initiative;
- Accelerating capital investment in port infrastructure;
- Ensuring that National Ports Authority fulfils its statutory functions as landlord, master planner, controller of port navigation, and controller of port services and port facilities;
- Implementing the ship repair strategy;
- Developing marine operations learnership and skills programmes;
- Aligning National Ports Authority's business operations to fulfil its functions set out in the National Ports Act; and
- Preparing for economic regulation.

National Ports Authority owns and manages the seven ports in South Africa: Saldanha, Cape Town, Mossel Bay, Port Elizabeth, East London, Durban and Richards Bay

TRANSNET
port terminals

Port Terminals handled a record 3.4 million TEUs (20 foot equivalent units) in the previous year – 13% higher than last year

Transnet Port Terminals doubled investment in capital equipment to R1,7 billion during the year

Financial overview	**Year ended 31 March 2007 R million**	Year ended 31 March 2006 R million	% change
Salient features			
Revenue	**4 098**	3 585	14
EBITDA	**1 561**	1 193	31
Depreciation and amortisation	**336**	267	26
Operating profit	**1 352**	911	48
Profit before taxation	**1 323**	893	48
Net asset value	**3 994**	3 002	33
Managed assets	**4 570**	3 231	41
Profitability measures			
Operating margin (%)	**33,0**	25,4	30
Return on net assets (%)	**33,1**	29,7	11
Return on managed assets (%)	**29,6**	28,2	5
Capital expenditure			
Total	**1 740**	776	124
Employees			
Number of employees	**5 049**	4 853	4
Revenue per employee	**0,81**	0,74	10

Revenue up
14% to
R4,1 billion

EBITDA up
31%

Five-year capital
expenditure plan
R9,5 billion

KEY PERFORMANCE INDICATORS (KPIs) – PORT TERMINALS

		2007 Target	**2007 Actual**	Performance	2008 Target	% change vs actual
Financial						
Revenue (R million)		4 052	**4 098**	Achieved	4 740	16
EBITDA (R million)		1 635	**1 561**	Not achieved	1 844	18
Infrastructure						
Capital expenditure (R million)		1 415	**1 740**	Achieved	3 136	80
Efficiency						
Moves per crane hour	– Durban container terminal	20	**17**	Not achieved	22	29
	– Cape Town container terminal	20	**21**	Achieved	20	–
Moves per ship hour	– Durban container terminal	32	**33**	Achieved	35	6
	– Cape Town container terminal	33	**33**	Achieved	33	–
Tons loaded per hour	– Iron ore terminal	4 349	**3 951**	Not achieved	4 900	24
Tons loaded per hour	– Richards Bay dry bulk terminal	817	**711**	Not achieved	750	5
Tons unloaded per hour	– Richards Bay dry bulk terminal	508	**502**	Not achieved	525	5

BUSINESS OVERVIEW

Transnet Port Terminals (Port Terminals) manages 15 cargo terminal operations, situated across six South African ports. With a staff complement of 5 049, Port Terminals is the dominant terminal operator in each of these ports and 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.

Port Terminals's operations are divided into four cargo sectors namely: container, dry bulk, break-bulk and automotive.

Performance highlights

The following operational achievements were recorded during the year:

- Durban Container Terminal handled two million TEUs (20 foot equivalent units), compared to 1,7 million TEUs in the previous year, an increase of 18%;
- Port Terminals has made significant progress in developing a second container terminal in Durban (Pier 1), which commenced operations in May 2007. The terminal will be fully operational, with an annual capacity of 720 000 TEUs by December 2007;
- There has been a noticeable improvement in safety standards and working procedures across all of Port Terminals's operations, with a number of operations achieving NOSCAR status and/or ISO 14001 compliance;
- Port Terminals's intention to provide customers with improved operational performance and to create capacity ahead of demand was evidenced by its investment in capital equipment and projects amounting to R1 740 million (more than double that of the previous year). Altogether 51% of the investment was allocated to expansion projects;
- Due to the continued growth in container traffic, coupled with unusual weather conditions, Port Terminals experienced a period of severe congestion at the Durban container terminal. The problem was satisfactorily managed and the threat of a congestion surcharge did not materialise; and
- During September 2006, a portion of the Saldanha ship loader structure suffered a structural failure that resulted in export operations being halted for a period of 19 days. The fact that the plant was restored within a 19-day period was a tremendous achievement and this was followed by record loading performance to fully catch up the backlog by December 2006.

ACHIEVING RETURNS GREATER THAN THE COST OF CAPITAL

Financial management

Financial performance

Revenue increased by 14% year-on-year. Profit before taxation improved year-on-year by 48%. The current year's profit was positively affected on by fair-value adjustments (R135 million) arising from forward exchange cover purchased to meet foreign commitments for the acquisition of container handling equipment.

The containment of percentage cost increases, to less than that of revenue growth resulted in the operating margin increasing from 25,4% to 33,0%, also impacted on by the abovementioned adjustment.

Marketplace and customer management

Port Terminals is committed to becoming a customer-centric organisation, with significant progress having been made in entrenching this new organisational culture. A customer survey that determines existing customer perceptions has been completed and the results indicate that a customer-centric culture is vital to the future of Port Terminals.

A customer segmentation process has been completed, which differentiates customers into three distinct segments: strategic customers, key customers and ad hoc customers. Service offerings are adapted to suit customer needs. In addition, structures have been implemented to provide effective customer service both from head office and the terminals.

Port Terminals has launched customer engagement and change management processes, based on the input from strategic customers. It is anticipated that these processes will result in improved service delivery to customers in accordance with customer needs and requirements.

A call centre has been implemented and is processing 8 000 calls per month.

Operations management
During the year, the container sector handled 3,4 million TEUs versus 3,0 million TEUs in the prior year – a 13% increase. This increase was achieved despite the capacity and performance challenges experienced during the peak season.

The closure of Pier 1 container terminal in Durban for the fast track development of a fully-fledged container terminal did not have a negative impact on capacity due to the use of the multi-product berths to supplement the container capacity in Durban. Pier 1 is now functional.

The operations performance of all container terminals showed marked improvements with previous records for "volumes handled per day" being exceeded. The Vulindlela project and operations training by Sri Lankan trainers has contributed to an improved performance at Durban Container Terminal (DCT) and has laid the foundation for further productivity improvement in the next year. The container terminals in Port Elizabeth and Cape Town experienced high growth in reefer container volumes and achieved an average handling performance of 22 container moves per gross crane hour.

The volume handled in the automotive sector increased to 558 218 units, an 18% increase compared to the previous year. This was due to favourable market conditions, with GDP growth and relatively low interest rates creating higher than expected demand for lower- to middle-priced imported vehicles – imports account for 68% of the total volumes.

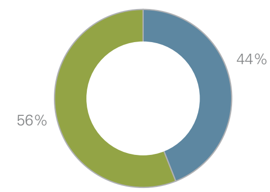
The Durban car terminal, which is experiencing serious capacity problems in accommodating the increased volumes, retained its five-star NOSCAR rating for the sixth year in succession.
The effectiveness of the value-added activities in the terminals of Port Elizabeth and Durban is a positive step towards the achievement of an integrated service offering to original equipment manufacturers (OEMs).

The multi-purpose sector volumes were 4% higher than the prior year due to a general increase in demand for imported commodities. Export volumes experienced a small decline, mainly due to a drop in the export of steel products as a result of the increased local consumption thereof. The increase in volume through the Richards Bay multi-purpose terminal has assisted in the achievement of a welcome turnaround in the financial performance of this terminal.

Bulk volumes were negatively impacted on by a 25% reduction in woodchip exports through Richards Bay due to shortage of supply and lower than expected magnetite export volumes, also through Richards Bay, due to difficulties in securing sufficient rail transport to the port. Despite the above, the sector achieved a 2% growth in volume. A significant portion of the planned capital expenditure is aimed at increasing the capacity in this sector.

Supply management and BBBEE
Port Terminals abides by Transnet's BBBEE policy as outlined in Transnet's detailed procurement procedures (DPP) and will comply with the Department of Trade and Industry (DTI) codes of good practice 500 and 600 as well as the DTI's BEE scorecard. The certification of BEE companies will be done through credible accreditation companies that comply with the DTI's codes of good practice.

Port Terminals will also engage in enterprise development initiatives where emerging suppliers and black emerging micro-enterprises (EMEs) will be taken through a process of skills transfer and development,



2007 BEE procurement

BEE procurement	R710 million
Non-BEE procurement	R910 million

enabling them to participate in the wider economic activity of the country. Port Terminals' supplier management strategy also includes annual awards for suppliers that have shown significant transformation. These include black EMEs that have most improved performance and suppliers that have implemented successful joint ventures and strategic alliances.

During the year, Port Terminals spent 44% of its total procurement expenditure with BEE suppliers.

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

In accordance with the King II Code of Corporate Governance, the Companies Act and the Public Finance Management Act (PFMA), Port Terminals adheres to good corporate governance and risk management as a key business objective. As such Port Terminals has established a business risk and corporate governance portfolio within the organisation, with an executive level reporting framework. Other key governance structures include the establishment of a Compliance Officer function, Corporate Governance and Policy Committee and Risk Management Committees at strategic and operational levels.

Port Terminals embarked on several initiatives to enhance its corporate governance premium. These initiatives included:

- Implementing the Transnet Fraud Prevention Plan;
- Institutionalising fraud prevention and corporate governance training programmes;
- Rolling-out the Company's Code of Ethics;
- Promoting the use of the Fraud Hotline to employees, suppliers and customers;
- Communicating key messages to employees at an operational level through industrial theatre; and
- Developing a policy and procedures manual.

No material corporate governance breaches occurred. In all instances where non-conformances have been identified, appropriate management action has been taken.

Strategic direction

Port Terminals' strategic objectives include:

- Entering into strategic partnerships to exploit new commercial opportunities that grow the Port Terminals revenue base;
- Understanding customer requirements and translating these into consistent and personalised service offerings that exceed customer expectations;
- Creating capacity ahead of demand;
- Containing increases in operating costs per unit of volume at less than the CPIX cost increase;
- Maintaining Port Terminals' market dominance by ensuring the organisation is recognised as an efficient and cost competitive operator; and
- Creating a performance management culture and skills base that enables the execution of Port Terminals' business plan.

The Port Terminals management team has developed clear interventions that will deliver the abovementioned objectives and ensure that the business is fully aligned to, and supports, the overall vision and objectives of Transnet as outlined in the Corporate Plan.

Risk management

At Port Terminals an Enterprise-wide Risk Management (ERM) Framework has been adopted and implemented at both strategic and operational levels. The ERM framework helps inculcate vigilant risk management.

The risk methodology comprises risk identification, assessment, control and response, risk governance and, monitoring and reporting. The framework provides discipline and structure for risk management within Port Terminals and aims to improve performance measurement by monitoring key risk indicators and managing risk mitigation/treatment plans.

Key risks at Port Terminals	Port Terminals' planned response
Existing capacity constraints	Aligning capacity with customers' needs and demands. Creating capacity ahead of demand through timeous capital investment. Optimising asset utilisation.
Regulatory risk	Mitigating risks associated with the impact of the regulatory environment on the commercial activities of Port Terminals through engagement with key stakeholders. Compliance with relevant laws, standards and rules.
Efficient service delivery	Matching the productivity of all operations, measured in throughput units per hour, with that of leading international terminal operators. Integrating Transnet service offerings along mainstream corridors to unlock the competitive advantage. Investing in people, systems and equipment to ensure efficient service delivery. Ensuring that service levels exceed the expectations of customers.
Operational safety	Creating and enforcing the culture of a safe working environment through training, discipline and consequence management. Pursuing ISO certification and rewarding excellent safety performance.
Human capital constraints	Attracting and retaining employees with appropriate competencies and a high-performance work ethic through appropriate remuneration and incentive schemes. Roll-out of the Talent Management Framework.

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

During the year the Communications Committee played a key role in identifying stakeholders and principle issues, as part of the roll-out of the Port Terminals Sustainability Platform. Port Terminals' efforts have been focused on improving employee development, rallying strategic stakeholders around the organisation's vision and promoting customer centricity.

Improving the reputation of the organisation through strategic initiatives and corporate communication has had a positive affect on the supportive behaviour of stakeholders, which has in turn assisted in the achievement of strategic objectives.

In the year ahead Port Terminals will continue to strengthen relationships with internal and external stakeholders through transparent communication.

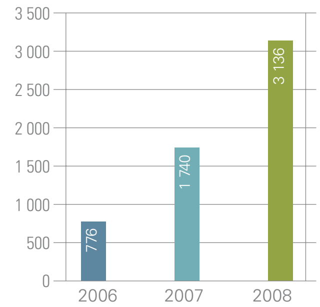
DEVELOPING WORLD-CLASS INFRASTRUCTURE

Port infrastructure

The planning and development of port infrastructure is undertaken on a coordinated basis across Transnet to ensure that the capital investment programme of divisions such as Port Terminals, Freight Rail and National Ports Authority is aligned across the operations and with the needs of the economy. Economic growth forecasts, coupled with the need to upgrade existing infrastructure, have necessitated an extensive refurbishment, replacement and expansion programme which is fully budgeted for within the Transnet Corporate Plan.

Capital investment

Capital spending for the year amounted to R1 740 million compared to R776 million in the previous year.



Capital expenditure

Significant areas of expenditure for the year included:

- The replacement and expansion of equipment capacity (cranes and straddle carriers) at the three existing container terminals: R427 million;
- The construction of a new container terminal in Durban at Pier 1: R399 million;
- The refurbishment and expansion of the iron ore export facility at Saldanha Bay: R372 million; and
- The refurbishment and expansion of the Richards Bay Bulk terminal: R209 million.

Port Terminals will implement a robust capital expenditure programme over the next five years to ensure capacity is created ahead of demand and that productivity is improved.

The approved capital expenditure for the next year is R3,1 billion:

Projects	**R million**
New container terminal at the port of Ngqura	659
Saldanha iron ore terminal expansion	544
New container terminal at Durban's Pier 1	481
Cape Town container capacity expansion	229
Richards Bay dry-bulk terminal refurbishment and upgrade	135
Refurbishment of manganese export facility – Port Elizabeth	120
Durban container terminal	100
Other	868
Total	**3 136**

Port Terminals has planned for the following major capital expenditure over the next five years:

Projects	**R million**
New container terminal at the port of Ngqura	1 466
Saldanha iron ore Terminal expansion	2 894
New container terminal at Durban's Pier 1	594
Cape Town container capacity expansion	382
Richards Bay dry-bulk terminal refurbishment and upgrade	732
Refurbishment of manganese export facility – Port Elizabeth	295
Durban container terminal	286
Port Elizabeth container terminal – equipment replacement	294
Other projects	2570
Total	**9 513**

Information and communications technology

Port Terminals continues to participate in the Transnet programme to reengineer its technology enablers and systems as part of the broader three-year business reengineering programme within the Group. The two main objectives from an information and communications technology (ICT) perspective are to reduce overall ICT expenditure across the Group and to align new investment in ICT with leading practice.

Port Terminals' information technology landscape is largely modernised and uncomplicated. The interactive website (www.saponet.com) launched in 2003, is widely used by industry stakeholders for on-line container track and trace, and records in excess of 450 000 hits per month.

ICT challenges at Port Terminals include the need to further reduce the amount of paper documentation required in the cargo import and export industry through the use of technology. A key focus is to simplify documentation usage and to provide an electronic interchange between all parties. This will reduce the effort of processing shipping documentation as well as the overall cost of doing business in the freight transport sector.

CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

People management

Port Terminals' staff complement increased from 4 853 permanent employees in 2006 to 5 049 permanent employees in 2007

Change, transformation and culture

The Transnet culture blueprint is currently being developed and is scheduled for implementation during the course of the next year.

Employment equity

Port Terminals is committed to its policy of employment equity. As at March 2007, previously-disadvantaged employees constituted 77% of the Port Terminals staff complement.

Skills development and talent management

The high turnover rate within key leadership positions coupled with an ageing workforce required focus to be directed at the need for skills development and succession planning during the year.

Emphasis was placed on developing executive management and shop floor competencies as well as graduate placements, particularly in the fields of engineering and finance.

Operational and technical training was also a key focus area for the year. One of the key training initiatives of the year was the appointment of a Sri Lankan-based training company, PMCS to assist Port Terminals with operational training at the Durban Container Terminal. This is expected to result

	Asian (A)		African (B)		Coloured (C)		Black (A+B+C)		White		Total		Total
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F+M
Management	20	35	34	68	13	24	67	127	21	77	88	204	292
Non-managerial	48	352	352	2 448	94	397	494	3 197	119	947	613	4 144	4 757
Total – 2007	**68**	**387**	**386**	**2 516**	**107**	**421**	**561**	**3 324**	**140**	**1 024**	**701**	**4 348**	**5 049**
	1%	**8%**	**8%**	**50%**	**2%**	**8%**	**11%**	**66%**	**3%**	**20%**	**14%**	**86%**	**100%**
Management	17	36	48	61	15	19	80	116	16	84	96	200	296
Non-managerial	33	345	254	2 481	69	412	356	3 238	106	857	462	4 095	4 557
Total – 2006	50	381	302	2 542	84	431	436	3 354	122	941	558	4 295	4 853
	1%	8%	6%	52%	2%	9%	9%	69%	3%	19%	12%	88%	100%

F = Female M = Male

in improved container loading rates in the future.

A framework has been developed to facilitate the achievement of skills development objectives. One of the deliverables was the implementation of a talent planning programme, which involves the identification of mission-critical positions and the existing talent within those positions. This has resulted in the detection of gaps in critical skills within the organisation. The focus for the next year will be the development of mission critical talent to close these critical skills gaps.

Skills development	2007 R million	2006 R million
Training, bursaries and grants	**38**	21
% of payroll costs (%)	**2,9**	1,8

The key resource challenges in the coming year continue to be:

- The increase in skills gaps as a result of changing technology and work methods;
- The 'high age' profile within the technical and operational cadres; and
- The lack of specialist skills and technical competence in critical areas.

One of the techniques of addressing the skills shortages within Port Terminals is the implementation of project teams which focus on the filling of critical vacancies within the organisation.

Performance and reward

Port Terminals is committed to fair remuneration. Remuneration is linked to performance appraisal, thereby creating a workplace in which employees can excel. During the year, the new Transnet performance Management Policy was implemented. Career planning will be one of the key focus areas during the next reporting cycle and a process is in place to ensure that each employee has an individual development plan.

Human resource enablement

Workplace design and human-capital development have been strong focus areas during the year. Port Terminals is guided by its legislative framework, including the Basic Conditions of Employment Act, the Occupational Health and Safety Act and the Labour Relations Act. The outputs of the corporate organisation development process include the optimisation of structures, job evaluation, a performance driven remuneration model and business process reengineering.

Employee relations

In addition to disciplinary, grievance and dispute resolution mechanisms already in place, the division is close to finalising a facilitated document on co-operative relationships with labour. Worker cooperatives are being structured, which will assist with additional or alternative human resources during periods of high volumes, additional demands or industrial action.

The training of line management on employee-relations skills and practices are ongoing. This ensures appropriate management of disciplinary procedures and grievances in the workplace.

Employee wellness and HIV/Aids

Employee wellness is a core strategic focus at Port Terminals and goes beyond legislative compliance. The Port Terminals health management programme has resulted in mutual benefit for the organisation and its stakeholders in terms of the early detection of health problems, prolonged work life of employees and absenteeism management.

Port Terminals has adopted a risk-based approach to HIV/Aids management. External experts have been engaged to identify the relevant risks and to recommend appropriate actions.

The planned actions for the year ahead are:

- Increasing the availability of testing to promote the awareness of each employee's HIV/Aids status;
- Encouraging employees to enrol in Port Terminals disease-management programme to participate in antiretroviral treatment; and

- Intensifying HIV/Aids-related education and training initiatives within Port Terminals.

Employee safety
Port safety at Port Terminals has a direct impact on employees and the public (for public safety refer below) and management is committed to the rigorous implementation of an integrated SHEQ management system. Steady progress has been made towards achieving ISO certification in all terminals.

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

Safety standards and associated training in the workplace have resulted in a workforce that is more aware of safety issues and the consequences of non-compliance.

Disabling injuries and fatalities are an unacceptable occurrence and SAPO is saddened by the incidents that took place during the year. Port Terminals is working towards zero incidents.

CARING FOR THE COMMUNITIES WHERE WE OPERATE

Corporate social investment (CSI)
Port Terminals strategically aligns CSI initiatives with broad business objectives. During the year our CSI activities supported a key business objective: further entrenching the brand. This was achieved through various CSI initiatives such as entrepreneurial development, poverty and hardship alleviation, disaster relief, HIV/Aids interventions and support for artistic and cultural development.

SHEQ performance Indicator	Target 2008	**Actual 2007**	Actual 2006	Actual 2005
Cost of risk as % of revenue (%)	2,20	**2,70**	1,30	1,35
DIFR	1,00	**1,20**	1,70	1,02
NOSA rating (%)	90	**84**	81	76

Port Terminals employee fatalities	**2007**	2006	2005
Fatalities on premises (suicide excluded)			
Injuries	**5**	4	2
Diseases	**–**	–	–
Road traffic (public roads)	**–**	1	–
Total	**5**	5	2

Community impact and public health and safety
Port Terminals operations handle a wide range of commodities including hazardous, toxic and radioactive substances. The process of loading and unloading bulk products such as grain, iron ore and woodchips all present their own challenges from health and environmental perspectives. Noise, dust, general pollution and vehicular traffic all impact on surrounding communities.

Port Terminals is committed to managing social impacts resulting from its operations. This includes the minimisation of noise during operations, the reduction of dust during discharge or loading and the reduction of pollution. Legislative compliance in itself results in the reduction of social impact.

Port Terminals deems disabling injuries and loss of life to be unacceptable. As such the organisation is committed to the reduction of accidents and fatalities impacting on the public.

Public fatalities

	2007	2006	2005
Fatalities on premises (criminal activity and suicide excluded)	**1**	2	4
Road traffic (public roads)	**–**	–	–
Total	**1**	2	4

MANAGING OUR ENVIRONMENT RESPONSIBLY

Environmental management

Port Terminals has implemented the NOSA Management System, the ISO 14001 Environmental Management System and the ISO 9001 Quality System. The process of system certification is in progress and will remain priority during the next year.

Port Terminals is committed to further mitigating the negative impact caused by the nature of certain cargo types passing through the operations. The constant revision and refinement of environmental management practices includes plant design, process reengineering, updated technology and alignment with leading practice.

Environmental impact assessments (EIAs) are conducted in consultation with all interested and affected parties, including local communities and municipalities, when new developments are planned.

PROSPECTS

Committing to stakeholder value

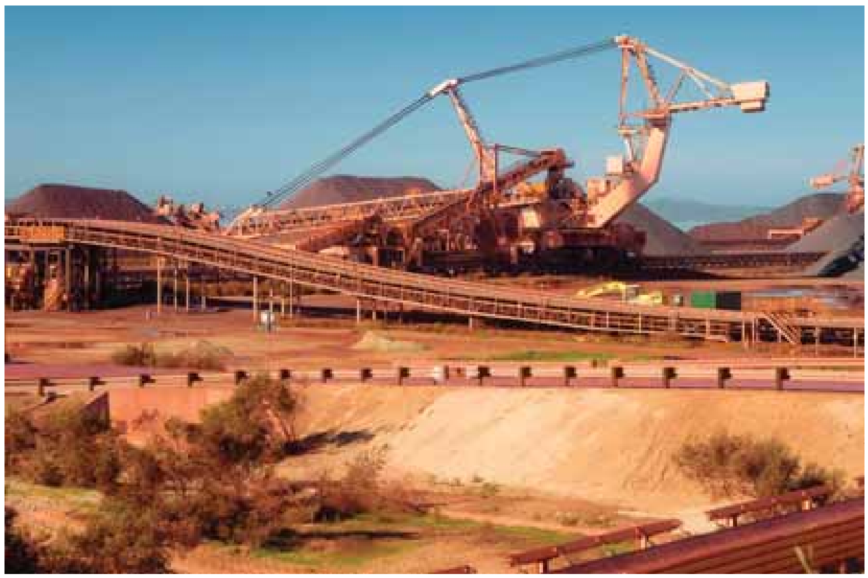
Port Terminals' approved five-year capital expenditure plan provides for the expansion of the capacity of the Saldanha iron ore terminal to 45 million tons and the commencement of terminal operations at the Port of Ngqura (container, bulk and break-bulk) by the end of 2008.

The accelerated construction of the new container terminal at Durban Pier 1, together with capacity development at the Durban container terminal is expected to provide capacity for container traffic in excess of 3,5 million TEUs through the port of Durban.

Growth prospects remain strong. Port Terminals expects that revenue will double over the next five years.

The approved capital expenditure programme is aligned with its growth forecasts and management is confident that the organisation will satisfy customer expectations going forward.

The iron ore terminal at Saldanha is being refurbished at a cost of R372 million



pipelines

Transnet is investing nearly R10 billion to build the new multi-product pipeline between Durban and Johannesburg


Pipelines' network of pressure pipes pumps close to 17 billion litres of petroleum products and 14 million gigajoules of gas per year

Financial overview	**Year ended 31 March 2007 R million**	Year ended 31 March 2006 Restated R million	% change
Salient features			
Revenue	**1 218**	1 060	15
EBITDA	**931**	860	8
Depreciation and amortisation	**259**	237	9
Operating profit	**672**	623	8
Profit before taxation	**444**	372	19
Net asset value	**2 509**	2 200	14
Managed assets	**4 068**	3 409	19
Profitability measures			
Operating margin (%)	**55,1**	59,0	(7)
Return on net assets (%)	**17,7**	17,0	4
Return on managed assets (%)	**16,5**	18,3	(10)
Capital expenditure			
Total	**310**	220	41
Employees			
Number of employees	**483**	448	8
Revenue per employee	**2,52**	2,37	6

Revenue up
15% to
R1,2 billion

EBITDA up
8%

Five-year capital
expenditure plan
R10 billion

KEY PERFORMANCE INDICATORS (KPIs) – PIPELINES

	2007 Target	**2007 Actual**	Performance	2008 Target	% change vs actual
Financial					
Revenue (R million)	1 154	**1 218**	Achieved	1 376	13
EBITDA (R million)	860	**931**	Achieved	995	7
Infrastructure					
Capital expenditure (R million)	226	**310**	Achieved	900	190
Efficiency					
Total operating costs per Mℓ.km of product conveyed (R)	43,46	**38,63**	Achieved	45,00	16

BUSINESS OVERVIEW

Transnet Pipelines (Pipelines), the pipeline operating division of Transnet, owns and operates South Africa's 3 000 km of strategic petroleum and gas pipeline infrastructure, traversing five provinces. Pipelines plays an important role in ensuring the secure supply of petroleum products in South Africa.

Performance highlights

Pipelines recorded the following operational highlights during the year:

- Revenue increased by 15% to R1 218 million mainly due to volume growth.
- Overall petroleum volume throughput increased by 8,1% and gas by 14,6%.
- Pipelines commenced the feasibility study for the new multi-product pipeline and received Board approval to commence with the project, provided certain risk mitigation conditions were met.
- Pipelines received its operating licence for the pipeline network and Tarlton from the National Energy Regulator of South Africa (NERSA).

ACHIEVING RETURNS GREATER THAN THE COST OF CAPITAL

Financial management

Financial performance

Pipelines achieved revenue of R1 218 million, indicating an overall improvement of 15% compared to the previous year. The improved performance is mainly attributable to volume-throughput increases. A 2,5% increase in tariffs was approved by DME in 2006.

Profit before taxation, therefore, increased by R72 million to R444 million mainly as a result of the higher revenue results detailed above.

Marketplace and customer management

Pipelines's clients consist of the major oil companies operational in South Africa: BP, Chevron, Engen, Sasol Oil, Sasol Gas, Shell and Total as well as the smaller local South African Companies such as Vuyo Petroleum. Products currently transported by Pipelines include gas, crude oil, aviation turbine fuel, diesel and various grades of petrol.

Pipelines acknowledges its clients' demanding service delivery expectations. Safety, flexibility, reliability and timeliness are critical factors in their businesses. As such, Pipelines continuously strives to improve its service delivery to them.

For more than four decades, Pipelines has fulfilled the strategic role of providing the South African oil industry with sufficient pipeline capacity to meet the economy's petroleum product and gas transportation requirements. It currently transports approximately 17 billion litres of petroleum products and 14 million gigajoules of gas annually. The refined products volumes conveyed through Pipelines's pipeline network is greater than 50% of the South African consumption.

Operations management

Pipelines has successfully adopted and converted to the 'clean-fuels' specifications and the entire system is now lead free. The refractionator plant has been completed and Pipelines will now be able to reprocess the intermixture it generates in its multi-product system.

Because of market demand growth, the pipeline capacity between Durban and Gauteng needs to be addressed until 2010, when the new multi-product pipeline (NMPP) project is due to be completed. As such, Pipelines has formulated appropriate activity plans that include actions such as operational optimisation, transporting diesel in the crude line and the injection of drag reducing agents to improve the flow rates.

Pipelines's key performance and distribution indicator, ie megalitre.km, showed an improvement on the previous year. This is mainly due to the increase in volumes transported over the longer distances (eg Durban to Gauteng).

Supply management and BBBEE

Pipelines' procurement activities are fully supportive and aligned to Transnet Supply Management's "flight plan". Strategic sourcing initiatives were implemented together with Supply Management, which created the opportunity for cost reductions in procurement of more than R4,69 million. Pipelines actively supports preferential procurement, as is evident from the fact that 54% of discretional spend was placed with BEE suppliers.

2007 BEE procurement

BEE procurement	R168 million
Non-BEE procurement	R142 million

ASSURING SOUND ACCOUNTABILITY AND GOVERNANCE

Pipelines is committed to adhering to sound corporate governance principles of the King II Code of Corporate Governance, the Companies Act and the Public Finance Management Act. Pipelines takes a 'zero-tolerance' approach to fraud and corruption and subscribes to the Transnet Ethics Policy.

Strategic direction

The strategic objectives of Pipelines include:

- Optimally managing the strategic pipeline capacity owned and operated by Pipelines.
- Planning, designing and completing the NMPP project by the third quarter of 2010.
- Managing the overall process of regulation of gas and petroleum pipelines and participating in the formalisation of additional regulatory requirements.
- Successfully transforming the organisation through the Vulindlela project to ensure the effective and efficient management of human capital to support a 'new' Pipelines beyond the commissioning of the NMPP.
- Ensuring a sustainable and legally-compliant asset to provide reliable and environmentally-responsible bulk transportation of petroleum products.
- Ensuring that sustainable business-support systems are implemented and optimally utilised.

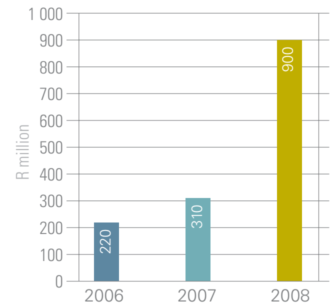
Risk management

Pipelines subscribes to good corporate governance and vigilant risk management through the vigorous implementation of the holistic and consistent ERM Framework. During the year Pipelines committed the necessary resources to embed and sustain the ERM culture.

A strong emphasis on service integration allowed Pipelines to establish an appropriate resource structure, with the appointment of 'departmental risk champions' for full organisational representation and support.

The key risks are set out below. It should be noted that the tariff increase application for a 5,6% increase was rejected by NERSA. This clearly poses a risk for the NMPP Project. However, the Company is engaging with the relevant authorities to resolve the issue.

Key risks at Pipelines	Pipelines's planned response
Regulatory risk – National Energy Regulator of South Africa (NERSA),	Continued engagement with relevant stakeholders such as NERSA to ensure alignment and compliance.
Environmental impact assessments (EIAs)	Managing the environmental impact assessment process of the NMPP project.
Existing pipeline capacity constraints	Assessment and management of customers' future needs and demands. Investment in NMPP capital project. Rolling out the bridging plan and other initiatives to address capacity constraints until the NMPP is commissioned.
Business interruption	Ongoing review of BCM and disaster recovery plans. Regular testing of all contingency plans including crisis management and communication strategy.



Capital expenditure

ENGAGING OUR STAKEHOLDERS FOR MUTUAL BENEFIT

Pipelines follows a business approach that is transparent, inclusive and accountable. Regular communication with all stakeholders forms the basis for this approach.

Given a positive and optimistic forecast for the South African economy, coupled with the potential outcomes of AsgiSA's accelerated growth initiatives, Pipelines faces several critical challenges in the Petroleum industry.

Fuel facilitates economic growth and at present there are logistical and infrastructural constraints to transporting adequate fuel to the economic heartland of the country. Pipelines' NMPP, a R9,5 billion investment to be commissioned in 2010, addresses this issue so as not to constrain the economy. Pipelines also participates in various forums, together with other stakeholders, to address multiple constraints associated with the petroleum supply chain.

A bridging plan is being developed to address capacity constraints expected until 2010, when the NMPP will be commissioned. All stakeholders are currently committed to operationalising the plan.

DEVELOPING WORLD-CLASS INFRASTRUCTURE

Pipeline infrastructure

The Pipelines liquid fuels pipeline network consists of four main lines, comprising the multi-product pipeline, the crude oil pipeline, the gas pipeline and the jet-fuel pipeline. The main lines cross five provinces, namely: KwaZulu-Natal, Free State, Gauteng, North West and Mpumalanga. The intake stations are based at the two refineries in Durban (Sapref and Enref); the crude refinery at Coalbrook (Natref) and, the synfuel plants at Secunda.

Pipelines is committed to providing and maintaining the asset infrastructure through engineering excellence to enable the bulk transportation of petroleum products. To achieve this, Pipelines's head office, its 15 intake and delivery depots and its three workshops are continually geared towards providing a 'high integrity' set of assets. This is achieved by conforming to high international pipeline maintenance standards.

Capital investment

Capital spending for the year amounted to R310 million compared to R220 million in the previous year. The capital expenditure for the year focused on the following projects:

- The NMPP project was initiated to fulfil Pipelines's mandate to increase capacity to meet economic demand.
- The intermixture refractionator was initiated to meet the requirements of 'clean fuels' legislation.
- The implementation of telecontrol along the pipeline network was accelerated.
- Inspections and integrity assessments of the pipeline network were performed to ensure a sustainable and legally compliant asset.

The budgeted capital expenditure for the next year includes:

Projects	R million
NMPP	612
Telecontrol phase II	45
Telecontrol phase III	33
NMPP bridging plan	20
Other projects	190
Total	**900**

Pipelines has planned the following major capital investments over the next five years:

Projects	R million
NMPP	9 312
Telecontrol phase II	45
Telecontrol phase III	84
NMPP bridging plan	92
Other projects	427
Total	**9 960**

Information and communication technology

Pipelines is aligned to the Transnet Business Intelligence [TBI] Project and its standards and requirements. There will be a renewed quest for sound ICT governance in 2007. In the year ahead, Pipelines will focus on formulating action plans to ensure further system enhancements and effective usage.

CREATING A WORKPLACE WHERE OUR PEOPLE CAN EXCEL

People management

Our staff complement, excluding fixed-term contractors, increased from 448 to 483 during the year.

Change, transformation and culture

As human capital is one of the four pillars of the Transnet four-point turnaround strategy, Pipelines has focused on the implementation of leading practice human capital frameworks and has implemented all seven of the Transnet HR strategic initiatives.

Employment equity

Pipelines achieved its Employment Equity Plan and furthered the advancement of women in the business. As at February 2007, 71% of the Pipelines staff complement was black.

Employees	Asian (A) F	M	African (B) F	M	Coloured (C) F	M	Black (A+B+C) F	M	White F	M	Total F	M	Total F+M
Management	7	9	3	27	3	2	13	38	3	40	16	78	94
Non-managerial	6	15	68	193	7	5	81	213	10	85	91	298	389
Total – 2007	**13**	**24**	**71**	**220**	**10**	**7**	**94**	**251**	**13**	**125**	**107**	**376**	**483**
	2%	**5%**	**15%**	**46%**	**2%**	**1%**	**19%**	**52%**	**3%**	**26%**	**22%**	**78%**	**100%**
Management	7	6	4	26	3	2	14	34	2	39	16	73	89
Non-managerial	6	14	57	181	6	4	69	199	10	81	79	280	359
Total – 2006	13	20	61	207	9	6	83	233	12	120	95	353	448
	3%	4%	14%	46%	2%	1%	19%	51%	3%	27%	22%	78%	100%

Skills development
Pipelines renewed its focus on building human capital capacity in 2006. Greater emphasis was placed on retaining and expanding core technical and operational competencies as well as addressing the skills gaps and competency requirements in the business.

Skills development	2007 R million	2006 R million
Training, bursaries and grants	**5**	7
% of payroll costs (%)	**4**	6

Talent management
The ability to attract and retain the right people with the appropriate competencies forms an integral part of our success. As such, considerable human capital planning in 2006 resulted in employee talent being appropriately harnessed and managed.

Interventions already implemented in support of the overall Transnet initiatives include:

- Identifying mission-critical positions and addressing associated succession-planning requirements; and
- Developing organisational talent to ensure succession plans are implemented on time.

Performance and reward
Pipelines management's performance is assessed annually according to performance objectives (SPOs) and key performance indicators (KPIs). Incentive bonus awards are allocated annually based on the overall financial performance of Pipelines. Junior personnel are assessed according to an in-house system based on key result areas that align with Transnet's performance and reward policy.

Human resource enablement
Pipelines will focus on the following key resource challenges in 2007:

- Building capacity and retaining core technical and operational skills;
- Managing talent through the implementation of targeted succession plans; and
- Sourcing the required skills in anticipation of employee growth needed beyond the NMPP project.

Employee wellness and HIV/Aids
Pipelines implements a comprehensive occupational medical surveillance programme which commences on recruitment of employees and continues to risk-based periodic medicals until exit stage. This forms part of the integrated SHEQ management system at Pipelines. All operations are assessed for potential health exposures that could have an adverse impact on human health.

All employees have access to the lifestyle management programme. The programme was utilised by 39 Pipelines employees in 2006. Other employee wellbeing programmes include the educational assistance scheme and the professional counselling programme, which is outsourced. Approximately 8% of Pipelines' employees utilised this counselling service during the year.

Employee safety
Pipelines operations could have a direct impact on employee and public safety (for public safety refer page 136). Special attention is paid to safety training to empower employees and to inculcate a safety culture within our operations.

SHEQ performance Indicator	Target 2008	**Actual 2007**	Actual 2006	Actual 2005
Cost of risk as % of revenue (%)	2,40	**2,60**	1,60	1,86
DIFR	1,00	**1,24**	1,00	1,29
NOSA rating (%)	88,5	**85**	85	80

During the year Pipelines focused on reviewing and assessing the relevance, adequacy and effectiveness of existing SHEQ management systems. This enabled the operation to update existing controls and in particular the standard operating procedures (SOPs).

In the coming year Pipelines will concentrate on corrective efforts to achieve desired SHEQ standards. It aims to manage and operate all its operations in accordance with leading global practice such as ISO 9001, ISO 14001 and OHSAS18001 principles.

CARING FOR THE COMMUNITIES WHERE WE OPERATE

Corporate social investment (CSI)

Pipelines participates in Transnet's CSI programme, which deals with social investment in charitable initiatives.

Community impact and public health and safety

Public health and safety will always be of paramount importance to Pipelines and forms part of the SHEQ management system. During the year, the Servitude Awareness Campaign promoted community and landowner pipeline safety and emergency awareness. Urban expansion and community development around the pipeline are closely monitored to ensure that the integrity of the servitude is maintained.

During the year Pipelines recorded a fatality related to an employee of a previous security contractor who was no longer contracted to Pipelines. The deceased was on the Jameson Park property without authorisation.

MANAGING OUR ENVIRONMENT RESPONSIBLY

Environmental management

Our technologically-advanced integrity-management system facilitates the internal and external inspection of the pipeline. Frequent patrols of the pipeline servitude and the monitoring of services and developments close to and within the pipeline servitude are key activities. Public awareness campaigns as well as round-the clock-monitoring of the network and an effective emergency responses plan enable quick and efficient responses should pipeline incidents occur.

Each depot, pump-station and workshop has contingency plans in place. Highly sophisticated spill response equipment and extensive disaster management expertise are also available to handle potential incidents.

Pipelines conducts environmental impact assessments and consults with all interested and affected parties, including local communities and municipalities, when new developments are planned.

During the year, Pipelines experienced no major pipeline incidents that harmed the environment.

Public fatalities	**2007**	2006	2005
Fatalities on premises (criminal activity and suicide excluded)	**1**	–	–
Road traffic (public roads)	**–**	–	–
Total	**1**	–	–

PROSPECTS

Committing to stakeholder value

Pipelines will continue to focus on the management of available pipeline capacity so as to optimise the cost-effective transport of petroleum products to Gauteng.

The finalisation and commencement of the NMPP is critically important to meeting the increasing inland demand for petroleum products. The substantial R9,5 billion funding required to construct the NMPP between Durban and Gauteng will require significant increases in tariffs to make the project economically viable.

It is essential that the required tariffs be agreed with the National Energy Regulator of South Africa so as to achieve the revenue required to cover the cost of capital on the investment. Our prospects will be directly affected by the tariff determination methodology of the National Energy Regulator of South Africa which is still to be finalised.

Our ultimate goal is to be regarded as both the pipeline service provider of 'first choice' and the petroleum products transporter of 'last resort' by all stakeholders, to the benefit of the South African economy.

Pipelines operates South Africa's 3 000 km of strategic petroleum and gas pipeline network

Pipelines focuses on skills development, emphasising retention of technical operational talent

Construction of the new Ngqura Port, outside Port Elizabeth, with a two berth container terminal, is under way

TRANSNET

FINANCIAL STATEMENTS

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2007 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 five independent non-executive Directors. The committee held four scheduled meetings in the 2007 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 operating divisions and subsidiaries. These subcommittees meet in terms of a formal mandate and deal with all issues arising at the operating division 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 operating divisions 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 external auditors concerning the effectiveness of the Group's internal control systems;
- Reviewed the reports of both internal and 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, approved the one-year and three-year internal audit plans and monitored the adherence of internal audit to its annual programme;
- 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 2007; and
  - the interim results for the six months ended 30 September 2006.
- Considered the independence and objectivity of the 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 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 accounting 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 2007 and considers that it complies, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, the Public Finance Management Act, 1 of 1999, the Public Audit Act, 25 of 2004, 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 21 June 2007.

Prof GK Everingham
Chairman: Transnet Audit Committee

21 June 2007
Johannesburg

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, are responsible for independently auditing and reporting on the financial statements in conformity with International Standards on Auditing. Their unqualified report on the annual financial statements prepared in terms of the Companies Act, Public Finance Management Act and Public Audit Act appears on page 140.

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 and Company's internal controls and considers the systems appropriate to the effective operation of its business. The Audit Committee has evaluated the Group's annual financial statements and has recommended their approval to the Board of Directors. The Audit Committee's approval is set out on page 138 of the Annual Report.

In preparing the Company and Group annual financial statements set out on pages 141 to 244, the Company and the Group have complied with International Financial Reporting Standards and the Companies Act in South Africa. 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 2007, and the results of their operations and cash flow information for the year then ended.

M Ramos
Group Chief Executive

21 June 2007
Johannesburg

FTM Phaswana
Chairman

21 June 2007
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 2007 as are required of a public company in terms of this Act, and all such returns are true, correct and up to date.

Z Stephen
Group Company Secretary

21 June 2007
Johannesburg

INDEPENDENT AUDITORS' REPORT TO THE MINISTER OF PUBLIC ENTERPRISES

INTRODUCTION

We have audited the accompanying financial statements of Transnet Ltd and the Group which comprise the Report of Directors, balance sheets as at 31 March 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes. 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 is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information is furnished in terms of subsection 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.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 61 of 1973 of South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

AUDIT OPINION

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the Company and the Group at 31 March 2007 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 of 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 presented on pages 143 and 144 of the Report of Directors presents fairly, in all material respects, Transnet Ltd and the Group's performance for the year ended 31 March 2007 against predetermined objectives and is, where applicable, consistent with that of the preceding year.

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.

Deloitte + Touche

Deloitte & Touche
Registered Auditors

Per T Kalan
Partner
21 June 2007
Deloitte Place
The Woodlands, 20 Woodlands Drive
Woodmead, 2199

A full list of partners and directors is available on request.

INTRODUCTION

The Board of Directors has pleasure in presenting its report and the audited financial statements of Transnet Ltd (the Company) and its subsidiaries (the Group) for the year ended 31 March 2007.

OWNERSHIP

The Company is a State-owned enterprise (SOE), wholly owned by the Government of the Republic of South Africa, reporting to its shareholder through the Department of Public Enterprises.

REGISTRATION DETAILS

The registration number of the Company is 1990/000900/06. The registered name and address of the Company are as follows:

Transnet Limited
47th Floor, Carlton Centre,
150 Commissioner Street,
Johannesburg,
2001

PRINCIPAL ACTIVITIES

The Company operates and controls South Africa's major transport infrastructure. During the year, focus remained on transforming the Company into an integrated and focused rail, port and pipeline business.

As part of the implementation of the approved four-point turnaround strategy, the Company continued to exit businesses that are not its focus, including commercial aviation and passenger rail transportation.

Further details of the businesses and investments earmarked for disposal are reflected in annexures C and D to the annual financial statements.

SHARE CAPITAL

There has been no change in the authorised share capital of the Company during the year.

The issued share capital of the Company has been reduced by 2 049 000 000 ordinary shares to 12 660 986 310 in the current year. This reduction resulted from the sale of South African Airways (Pty) Ltd (SAA) to the South African Government and the purchase price was settled through a buy-back of the Company's shares.

Further details regarding the Company's share capital are contained in note 21 to the annual financial statements.

Special resolutions

The following special resolutions were registered during the year:

Amendments to the Articles of Association

Special resolution 1

– The Company is allowed to buy back its shares in accordance with the provisions of section 85(1) of the Companies Act.

Special resolution 2

– A specific approval contemplated in section 85(2) of the Companies Act to acquire two billion and forty nine million ordinary shares of the Company with a par value of one rand each from the Government of the Republic of South Africa (the Government), to be set off against the purchase consideration payable by the Government to the Company in terms of the SAA sale of shares agreement entered into between the Company and the Government on 12 June 2006.

Special resolution 3

– Cancellation of the shares as issued shares, acquired pursuant to special resolution 2 above, and restoring them to the status of authorised shares.

SUBSIDIARIES AND ASSOCIATE COMPANIES

A share-sale agreement, subject to certain suspensive conditions, was concluded on 12 June 2006 for the disposal of South African Airways (Pty) Ltd (SAA). The effective date on which risks and rewards of ownership passed to the Department of Public Enterprises was 31 March 2006. As at 31 March 2007 all the substantive suspensive conditions that the sale was subject to, were either fulfilled or waived and consequently the Company recorded the sale of SAA in its accounting records.

The sale price of R2 billion was discharged by a share buy-back and as a result Transnet's net equity decreased by approximately R1 billion.

As part of the sale agreement, Transnet provided certain last resort guarantee facilities to SAA that expired on 31 March 2007. However, due to legislative delays in obtaining a suitable Government guarantee, the existing facility of R1,5 billion shall remain in place for a short period until the replacement guarantee is procured.

The Group also disposed of its investment in V&A Waterfront Holdings (Pty) Ltd. The Company recognised a profit on the sale of R1 230 million and the Group R711 million.

A detailed list of subsidiary and associate companies is contained in annexure D to the annual financial statements. The detailed effects of businesses and investments that have been discontinued or classified as held-for-sale in terms of IFRS 5 are contained in annexures C and D of the annual financial statements.

Changes in accounting policies

The accounting policies used in the preparation of the annual financial statements for the year ending 31 March 2007 are consistent with IFRS and with those used in the prior year, except as disclosed in the accounting policies and note 37 to the annual financial statements.

SUMMARY OF GROUP FINANCIAL PERFORMANCE

Continuing operations	**2007 R million**	2006 R million	% change
Revenue	**28 214**	26 034	8
EBITDA	**11 488**	10 301	12
Equity attributable to shareholder	**37 311**	29 413	27
Cash generated from operations before working capital changes	**13 488**	11 244	20
EBITDA margin (%)	**40,7**	39,6	3
Gearing (%)	**39**	46	(15)

DIVIDENDS

There were no dividends declared for the current year.

A dividend policy that is reviewed annually has been approved by the Board and the shareholder. The policy provides that dividends will be declared to the shareholder in circumstances where cash cannot be effectively utilised in the business, provided that appropriate gearing ratios are maintained.

Cash in the business will primarily address priorities in the strategic plan such as funding of the R78,9 billion investment plan over the next five years.

BORROWINGS

The Company's borrowing powers are limited to those approved by the Company in General Meeting and subject to the Public Finance Management Act, 1 of 1999 (PFMA).

As at 31 March 2007, the Group's borrowings amounted to R25 150 million, an increase of R3 293 million compared to the prior year. This increase can be attributed to borrowings that were raised to fund the capital expenditure programme.

CAPITAL EXPENDITURE AND COMMITMENTS

The capital expenditure for the Group over the next five years amounts to R78,9 billion. The Group has spent approximately of R11,7 billion in the current year and is expecting to spend R17,9 billion in the year ahead.

Further details regarding capital expenditure and commitments are contained in note 31 of the annual financial statements.

GOING CONCERN

The Directors are of the opinion that the business will be a going concern for the foreseeable future. In reaching this opinion, the Directors considered the following factors:

- Transnet has adequate credit facilities from its lenders to fund its operations and meet its financial obligations in the normal course of business for the foreseeable future;
- The operational and financial risks of the business have been significantly reduced;
- The previously reported deficit in the Second Defined Benefit Fund has now been eroded and the fund is in surplus;
- About 80% of the Transnet Group's debt is guaranteed by the Government of the Republic of South Africa;
- The current strategy of Transnet focuses on rail, ports and pipelines and as part of this strategy, non-core businesses and assets (some of which are underperforming) are being disposed of;
- The risks emanating from the recently promulgated National Ports Act, 2005, are manageable and will not impact the Group negatively;
- The net worth of the Transnet Group has improved by 27% since March 2006;
- The gearing ratio shows continued improvement; and
- Cash flow forecasts indicate that the Group will have sufficient cash resources to meet its obligations as they fall due.

COMPLIANCE WITH LEGISLATION

The Directors believe that the Company has, during the year, complied, in all material respects, with all legislation and regulations applicable to it, including without limitation, the Companies Act, 61 of 1973, as amended, the Public Finance Management Act, 1 of 1999, the Treasury Regulations and the Income Tax Act, 58 of 1962.

PUBLIC FINANCE MANAGEMENT ACT (PFMA)

Shareholder Compact – performance criteria

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).

Performance information and other criteria, as required by section 55(2)(a) of the PFMA, have been outlined below in terms of the Shareholder Compact.

Performance area	Key performance indicator (KPI)/measure		Benchmark	2007 Target	2007 Actual	Performance
Capital/financial efficiency**	**EBITDA margin (%)#**		**> 35*****	**34,8**	**40,7**	**Achieved**
	Cash interest cover (times)#		**> 5*****	**5,4***	**5,4**	**Achieved**
	Gearing ratio (%)	**– 2007**	**40 – 50*****	**47,9**	**39,0**	**Achieved**
		– 2006		59,0	47,0	Achieved
	CFROI (%)	**– 2007**	**> 6*****	**5,8**	**6,8**	**Achieved**
		– 2006		4,1	5,8	Achieved
Infrastructure investment	**% of actual capital expenditure compared to budgeted expenditure**	**– 2007**	**> 90% of target**	**R11 847 million**	**R11 674 million**	**99% Achieved**
		– 2006				100% Achieved
	% of total maintenance spent compared to budget#		**> 90% of target**	**R3 890 million**	**R5 495 million**	**141% Achieved**

* Including sale of shares
** Discontinued businesses – SAA, freightdynamics, Viamax and Autopax
*** These benchmarks are the target of performance in the medium term (next three years)
\# Key performance indicator not applicable in prior year.

		Total core businesses	Freight Rail	Rail Engineering	National Ports Authority	Port Terminals	Pipelines
Total revenue increase 2006 vs 2007 (core businesses)							
Tariff (%)	**Target**	**3,3**	**3,1**	**4,3**	**2,9**	**3,9**	**2,0**
	Actual	**5,1**	**5,5**	**4,0**	**1,3**	**5,0**	**7,0**
	Result	**Achieved**	**Achieved**	**Not achieved**	**Not achieved**	**Achieved**	**Achieved**
Volume/ activity (%)	**Target**	**11,5**	**10,9**	**28,6**	**3,7**	**8,8**	**6,8**
	Actual	**17,9**	**(1,1)**	**86,0**	**15,5**	**9,0**	**8,0**
	Result	**Achieved**	**Not achieved**	**Achieved**	**Achieved**	**Achieved**	**Achieved**
Total (%) – 2007	**Target**	**15,2**	**14,3**	**34,1**	**6,7**	**13,0**	**8,9**
	Actual	**19,0**	**3,7**	**90,3**	**12,3**	**14,3**	**14,9**
	Result	**Achieved**	**Not achieved**	**Achieved**	**Achieved**	**Achieved**	**Achieved**
Total (%) – 2006	Target	8,2	6,6	#	10,9	11,3	7,8
	Actual	6,5	4,5	#	11,0	9,3	3,8
	Result	Not achieved	Not achieved	#	Achieved	Not achieved	Not achieved

Total revenue = Internal and external revenues

Key performance indicator not applicable in prior year

COMPLIANCE – PUBLIC FINANCE MANAGEMENT ACT

Continuing operations

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.

Current year accomplishments include the approval of a PFMA policy, the development of PFMA guides and training material and the roll-out of PFMA training to all staff.

Sections 51 and 55 of the PFMA impose certain obligations on the Company and these relate to the prevention, identification and reporting of all fruitless, wasteful and irregular expenditure and collection of all revenue. In order to comply with these obligations, the Transnet Board of Directors has prepared a materiality framework which was approved by the Minister of Public Enterprises, subject to certain conditions.

The Transnet Board of Directors is pleased to report that no contraventions of the PFMA, subject to the materiality framework, have to be reported by the Board.

Discontinued operations

Listed below are certain PFMA contraventions which have been identified by the SAA Board of Directors and which will be reported to the Minister of Public Enterprises:

Procurement system

Section 51(1)(a)(iii) of the PFMA requires the procurement system to be fair, equitable, transparent, competitive and cost-effective. Substantial progress has been made in improving the procurement processes within SAA. However, there are legacy contracts and arrangements approved long before the implementation of the enhanced procurement system, against which payments have been made during the year. Accordingly SAA is unable to claim full compliance with section 51 of the PFMA.

Irregular, fruitless and wasteful expenditure

Sections 51 and 55 of the PFMA contain certain obligations for the company to comply with.

In the light of the internal control weaknesses, SAA is not confident that it is fully compliant with all the requirements of the PFMA regarding the prevention and disclosure of irregular expenditure in terms of section 51(b)(ii) of the Act.

Shareholder Compact

For the year a Shareholder Compact, as required by Treasury Regulation 29, was not in place due to the impending unbundling of SAA from Transnet and the finalisation of SAA's restructuring and corporate plan. In the absence of the Shareholder Compact, performance information has not been included in the Annual Report as envisaged by section 55(2) of the PFMA.

Legislation

Section 51(1)(h) of the PFMA requires that SAA complies with the PFMA and any other legislation applicable to that company.

A monitoring plan, to monitor compliance with laws and regulations, has been approved and is currently being implemented.

Internal control
As a result of the onerous obligations of the PFMA and the failure to fully comply with all statutory prescripts of the PFMA, SAA is also in breach of sections 51 and 57 relating to internal control.

TARIFF REGULATORS IMPACTING TRANSNET

National Ports Act, 12 of 2005 (the Act)
The Act came into effect on 26 November 2006 by Presidential proclamation in Government Gazette Number 2941.

In summary, the Act establishes the National Ports Authority Ltd (the Authority) as the landlord of South Africa's ports, and establishes an independent Ports Regulator with oversight powers. With effect from the aforementioned commencement of the Act, the National Ports Authority of South Africa (a division of Transnet Ltd) is deemed to be 'the Authority' provided for in the Act and must perform the functions of 'the Authority' contemplated in the Act.

The Act sets out three phases of corporate transition for the National Ports Authority of South Africa: firstly, in its current form, as a division of Transnet Ltd; secondly as a wholly owned subsidiary company of Transnet Ltd and finally as a public company whose assets are separate from those of Transnet Ltd.

On 13 November 2006 the Department of Transport published Draft Regulations to the Act (Draft Regulations) for public comment.

Transnet has raised concerns with certain aspects of the Act and the draft regulations in their current form. A Transnet Board ad hoc committee, comprising Mr FTM Phaswana (Chairman), Dr SE Jonah, KBE, Dr I Abedian, Mr PG Joubert and the Group Chief Executive, Ms M Ramos, has been formed to assist the Company to effectively deal with the challenges brought by the Act. The committee continues to engage with the shareholder on these matters.

PETRONET TARIFF REGULATOR, THE NATIONAL ENERGY REGULATOR OF SOUTH AFRICA (NERSA)

On 30 March 2007 the Company was informed by NERSA that an application by Petronet for a tariff increase for next year had been turned down. The Company is proactively engaging with the appropriate authorities to ensure that an appropriate tariff methodology is put in place. Before approving the capital expenditure for the new multi-product pipeline, the Board must be satisfied that a return greater than Transnet's weighted cost of capital will likely be achieved.

JUDICIAL PROCEEDINGS

The annual financial statements include a best estimate of expected settlement for judicial proceedings entered into with Transnet as either a defendant or plaintiff, where the outcome can be assessed with reasonable certainty, taking into account legal opinions obtained for the Company.

The contingent liabilities of the Group have been disclosed in note 32 to the annual financial statements.

POST-BALANCE SHEET EVENTS

The following significant issues have occurred between 31 March 2007 and 21 June 2007:

Sale of "C" class preference share in Newshelf 664 (Pty) Ltd
On 21 June 2007 Transnet Ltd accepted an offer of R5,8 billion from Newshelf 664 (Pty) Ltd, subject to certain conditions, for the redemption of the "C" class preference share held by Transnet Ltd in Newshelf 664 (Pty) Ltd.

Claim by Umthunzi Telecoms Consortium (Pty) Ltd
On 11 April 2007 the Umthunzi Telecoms Consortium (Pty) Ltd instituted legal action in the Transvaal Provincial Division of the High Court against The Government of the Republic of South Africa as the first defendant and Transnet Ltd as second defendant claiming the delivery of certain MTN Group shares. The claim amounts to approximately R2,2 billion. The Directors have sought and obtained advice from attorneys and counsel and, based on that advice, believe there is no legal basis for the claim and it is therefore unlikely to succeed.

Sale of Viamax (Pty) Ltd
Transnet Ltd has concluded an agreement in principle to sell Viamax Holdings (Pty) Ltd, its fleet management and leasing business, to Bidvest Group Ltd, for approximately R1 billion.

Sale of Transnet Housing Loan Book
The Transnet Housing Loan Book has been sold to First National Bank with effect from 1 April 2007 for its fair value of approximately R1,4 billion, subject to certain suspensive conditions.

Sale of Transnet Pension Fund Administrators

A sale agreement was concluded between Transnet Ltd, Fifth Quadrant Actuaries and Consultants (Pty) Ltd and Metropolitan Retirement Fund Administrators (Pty) Ltd for the sale of the Transnet Pension Fund Administrator's business for an amount of R23 million with effect from 1 April 2007.

Sale of VAE Perway (Pty) Ltd

A sale agreement was concluded between Transnet Ltd and VAE GmbH for the sale of VAE Perway (Pty) Ltd for R30 million. The effective date of the transaction is 16 April 2007.

freightdynamics

Transnet has entered into negotiations for the sale of freightdynamics. The sale of this business will be subject to the provisions of section 197 of the Labour Relations Act and is expected to be completed by 30 June 2007.

Transtel DEVI

Transnet Ltd is involved in negotiations for the disposal of its Transtel DEVI assets.

AUDITORS

At the Annual General Meeting, held on 11 August 2006, Deloitte & Touche were reappointed as external auditors of the Company. APF Chartered Accountants Inc., who had been joint auditors from March 1996 to 11 August 2006, were not reappointed in line with the Board's policy on rotation of auditors.

Deloitte & Touche was in turn required by the Company to subcontract a portion of the audit work to a black-owned firm of auditors. A selection process overseen by the Group Audit Committee resulted in the appointment of Sizwe Ntsaluba VSP as the subcontracting black-owned firm.

The business address of Deloitte & Touche is Deloitte Place, The Woodlands, 20 Woodlands Drive, Woodmead, 2199.

The Group internal audit is outsourced to Ernst & Young. Business address: Wanderers Office Park, 52 Corlett Drive, Illovo.

COMPANY SECRETARY

Transnet Ltd's Group Company Secretary is Ms Zola Stephen, Business address: 47th Floor, Carlton Centre, 150 Commissioner Street, Johannesburg, 2001.

DIRECTORS

Ms NR Ntshingila and Dr Norman Haste, OBE were appointed as non-executive Directors with effect from 23 May 2006.

The composition of the Board of Directors, with summary curriculum vitae of each Director, appears on pages 8 and 9.

The remuneration of the Directors is set out on pages 147 and 148.

REMUNERATION REPORT

The Remuneration Committee's mandate includes reviewing the design and management of salary structures, policies and incentive schemes and ensuring that they motivate sustained high performance and are linked to corporate performance.

During the year, the work of the committee included considering and approving, amongst others, the following matters:

- Long-term incentive scheme for 2007 to 2011;
- Short-term performance incentive scheme;
- Wage mandate for the bargaining unit;
- Management salary increases;
- Report on the Group Executive Committee members' remuneration; and
- Report on the Group Chief Executive's remuneration.

The Remuneration Committee also considers external market information for comparisons between reward structures and remuneration levels applicable to Directors and executives of the Group and those applicable to counterparts in organisations of similar size and complexity in comparable business sectors both in South Africa and, where appropriate, in other relevant countries.

During the year, the committee considered reports of two independent South African consultants specialising in remuneration.

The Company fully discloses all components of the Group Executive Committee members' remuneration information.

The Group Chief Executive is invited to all committee meetings, but recuses herself when her own remuneration is discussed.

The members of the Remuneration Committee are all independent non-executive Directors: Dr SE Jonah, KBE (Chairman), Ms NBP Gcaba (Deputy Chairman), Dr I Abedian, Ms NR Ntshingila and Mr PG Joubert.

Group Executive Committee members

With the exception of the Group Chief Executive, all senior executives of the Company are not employed on a fixed-term contract basis. The Company therefore carries no liability on termination of employment of an executive.

Guaranteed remuneration

The Company carried out an exercise, with the assistance of consultants specialising in remuneration matters, to review salaries of the Group Executive Committee members' remuneration packages, taking into account the scope and nature of each member's role, the individual's performance and experience, comparing with the median and upper quartile pay levels of South African companies. Adjustments, approved by the Remuneration Committee, were effected to the individuals' remuneration packages with effect from 1 April 2006.

Executive guaranteed remuneration

Name	Salary R thousand	Post-retirement benefit fund contributions R thousand	Other contributions R thousand	Other payments R thousand	**Total 2007 R thousand**	2006 R thousand
M Ramos+	4 616	436	–	4	**5 056**	4 009
CF Wells+	3 172	326	–	3	**3 501**	2 600
SI Gama	3 142	238	45	11	**3 436**	2 346
VD Kahla	2 534	195	30	24	**2 783**	1 952
P Maharaj	2 629	202	36	6	**2 873**	1 880
CA Möller	1 892	209	45	6	**2 152**	1 544
LRR Molotsane*	–	–	–	–	**–**	935
T Morwe	2 504	201	53	4	**2 762**	1 800
B Nomvete*	–	–	–	–	**–**	4 501**
KC Phihlela	2 408	180	–	25	**2 613**	1 784
BS Tshabalala*	–	–	–	–	**–**	1 262
R Vallihu	2 386	218	29	7	**2 640**	–
LL van Niekerk	3 388	311	–	5	**3 704**	2 824
Total	**28 671**	**2 516**	**238**	**95**	**31 520**	**27 437**

+ Group Executives who are members of the Board of Directors.
* Resigned.
** Termination benefits.

PERFORMANCE BONUS

The performance bonuses (excluded from guaranteed remuneration) reflected below are according to the principles of the approved bonus scheme for 2007 and will be paid during the 2008 financial year.

Name	**2007 R thousand**	2006 R thousand
M Ramos	**2 938**	2 886
CF Wells	**2 100**	1 732
SI Gama	**1 877**	1 109
VD Kahla	**1 570**	1 282
P Maharaj	**1 610**	1 244
CA Möller	**1 040**	1 004
T Morwe	**1 434**	1 188
KC Phihlela	**1 313**	1 125
BS Tshabalala	**–**	831
R Vallihu	**1 479**	–
LL van Niekerk	**2 266**	1 905
Total	**17 627**	**14 306**

Non-executive Directors

Non-executive Directors are appointed by the shareholder for a three-year term. The Articles of Association of the Company, however, require that the Directors be submitted for reelection for each of the three years at the Company's Annual General Meeting. Amongst the issues considered by the shareholder prior to reelection is the individual Director's performance.

The shareholder approves, in advance, the fees payable to non-executive Directors.

Fees paid to non-executive Directors vary based on their appointments to the various committees of the Transnet Board.

As part of non-executive Directors' emoluments, the Directors of the Company are each entitled to annual international concession tickets on South African Airways flights. The concession ticket benefit is valid for the Directors in office and must be used during the year or the benefit is forfeited.

The figures on concession tickets benefit utilised in the year as well as UIF payments made by the Company are contained on the 'Other payments' column in the table below.

Name	Fees R thousand	Other payments R thousand	**Total 2007 R thousand**	2006 R thousand
Board members				
FTM Phaswana (Chairman)	1 048	2	**1 050**	1 077
I Abedian	458	52	**510**	451
GK Everingham	544	49	**593**	543
NBP Gcaba	435	125	**560**	451
ND Haste OBE*	300	–	**300**	–
SE Jonah KBE	450	1	**451**	450
PG Joubert	487	1	**488**	537
NNA Matyumza	375	109	**484**	390
S Nicolaou	375	84	**459**	452
NR Ntshingila*	375	1	**376**	–
BT Ngcuka	395	47	**442**	439
KC Ramon	375	91	**466**	465
M Moses*	–	–	**–**	46
Total	**5 617**	**562**	**6 179**	**5 301**

* In proportion to time spent.

Subsidiary Directors' remuneration

Executive Directors

Name	Salary R thousand	Post-retirement benefit fund contributions R thousand	Other payments R thousand	**Total 2007 R thousand**	2006 R thousand
South African Airways (Pty) Ltd	6 090	1 474	2 777	**10 341**	12 900
G Griffiths *	2 175	–	110	**2 285**	–
O Mabandla	–	–	–	**–**	2 050
K Ngqula	3 570	1 430	–	**5 000**	6 850
T Ramano **	345	44	2 667	**3 056**	4 000
SAA City Centre (Pty)Ltd	953	77	52	**1 082**	1 229
TJ Nzima	953	77	52	**1 082**	1 229
SAA Technical (Pty) Ltd	1 067	–	34	**1 101**	3 118
J Blake	1 067	–	34	**1 101**	1 535
R Ramkissoon	–	–	–	**–**	1 583
Airchefs (Pty) Ltd	766	88	240	**1 094**	1 938
B Fischer **	–	–	–	**–**	251
V Kona **	–	–	–	**–**	220
J September	766	88	240	**1 094**	1 467
SA Express Airways (Pty) Ltd	1 659	–	1 641	**3 300**	1 675
S Mzimela	991	–	1 370	**2 361**	1 181
FJ Oberholzer **	–	–	–	**–**	494
S Zulu *	668	–	271	**939**	–
Viamax (Pty) Ltd	778	126	608	**1 512**	959
N Hariparsad	778	126	608	**1 512**	959
Autopax Passenger Services (Pty) Ltd	1 596	138	352	**2 086**	1 003
MC Bester	1 596	138	352	**2 086**	1 003
Protekon (Pty) Ltd#	–	–	–	**–**	1 184
C Xaba	–	–	–	**–**	1 184
B2B Africa#	–	–	–	**–**	834
NN Shikwane	–	–	–	**–**	834
Total	**12 909**	**1 903**	**5 704**	**20 516**	**24 840**

* Appointed during the current financial year.
** Resigned during the current financial year.
\# Decorporatised or in process of liquidation during the current financial year.

Non-executive Directors

Name	Fee R thousand	Other payments R thousand	Total 2007 R thousand	2006 R thousand
South African Airways (Pty) Ltd Group	2 750	–	**2 750**	3 854
TJ Dikgale *	20	–	**20**	–
R Doganis	–	–	**–**	505
F du Plessis *	75	–	**75**	–
G Gerwel	500	–	**500**	500
PG Joubert	300	–	**300**	250
KP Kalyan *	75	–	**75**	–
B Modise *	75	–	**75**	–
M Moerane **	230	–	**230**	360
LM Mojela	400	–	**400**	350
MV Moosa **	150	–	**150**	300
N Moyo *	75	–	**75**	–
A Ngwezi **	310	–	**310**	310
P Nkuna **	160	–	**160**	310
C Okeahalam **	210	–	**210**	969
M Ramos ** @	–	–	**–**	–
J Schrempp *	75	–	**75**	–
IAM Semenya *	20	–	**20**	–
M Whitehouse *	75	–	**75**	–
SA Express Airways (Pty) Ltd	320	–	**320**	300
C Christodoulou	20	–	**20**	–
P Maharaj * @	–	–	**–**	–
B Mohale	70	–	**70**	75
S Nicolaou	60	–	**60**	65
L Nyhonyha	70	–	**70**	75
K Phihlela ** @	–	–	**–**	–
A Richman	55	–	**55**	55
M Vuso	45	–	**45**	30
Viamax (Pty) Ltd	160	–	**160**	234
J Giltrow	–	–	**–**	26
F Leppan	76	–	**76**	82
M Moses	–	–	**–**	68
SYU Nhlapo	84	–	**84**	58
Protekon (Pty) Ltd #	–	–	**–**	10
PG Joubert	–	–	**–**	10
Autopax Passenger Services (Pty) Ltd	21	18	**39**	96
V Jack	21	18	**39**	22
V Kahla @	–	–	**–**	–
P Maharaj @	–	–	**–**	–
KC Ramon	–	–	**–**	74
Total	**3 251**	**18**	**3 269**	**4 494**

* Appointed during the current financial year
** Resigned during the current financial year
\# Decorporatised or in process of liquidation during the current financial year
@ Shareholder representative of Transnet Ltd

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

The consolidated financial statements for the year ended 31 March 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and joint ventures.

The financial statements were authorised for issue by the Directors on 21 June 2007.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and their Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

CRITICAL JUDGEMENTS AND ESTIMATES MADE IN APPLYING THE ACCOUNTING POLICIES

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 considered to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

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

Property, plant and equipment

- Revaluation
  - Port operating assets, pipeline networks and port infrastructure assets are carried at revalued amounts. Revaluations are performed 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.

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 and risk premium considered appropriate by management to determine the WACC;
  - Future cash flows were based on historic trends and operational plans 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 4.4.

Useful lives and residual values

- 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 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.

Special purpose entities

Management has applied significant judgement 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.

Valuation of the Subco derivative
The carrying value of the Subco derivative has been arrived at after utilising a model developed by an external valuer. Management have further applied judgement to the valuation obtained, taking into account factors pertaining to the realisation of the asset. The fair value of the derivative asset is disclosed in note 14 and the fair value adjustment on the derivative asset is disclosed in note 5.

Qualifying hedge relationships
As disclosed in note 14, the Group have fair value hedges in place. In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

Post-retirement benefit obligations
Various assumptions have been applied by management and the actuaries in the calculation of the post-retirement benefit obligations. The assumptions and their sensitivities are disclosed in note 33 to the annual financial statements. The carrying amounts of the liabilities are disclosed in note 24.

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*. The carrying amounts of the liabilities are disclosed in note 26.

Management further relies on input from the Group's lawyers in assessing the probability of matters of a contingent nature. Contingent liabilities are disclosed in note 32.

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 classified as held-for-sale. Certain classes of property, plant and equipment are carried at revalued amounts.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the adoption of IFRIC 4 and Circular 9/2006, which have been adopted retrospectively from 1 April 2005.

The accounting policies have been applied consistently by Group entities.

CHANGE IN ACCOUNTING POLICY

The Group has adopted IFRIC 4 and SAICA Circular 9/2006, retrospectively from 1 April 2005. Impacts thereof are disclosed in note 37, "Changes in accounting policy and other restatements".

IFRIC 4 *Determining whether an arrangement contains a lease*
IFRIC 4 provides guidance on determining whether arrangements (that do not take the legal form of a lease) are, or contain, leases. Leases identified through the adoption of this interpretation have been recognised as leases in terms of IAS 17 *Leases*. The recognition of such leases requires a retrospective adjustment to financial information, resulting in a favourable restatement to opening distributable reserves of R16 million net of taxation at 31 March 2006.

SAICA Circular 9/2006 *Transactions giving rise to adjustments to revenue/purchases*
Cash discounts and rebates are required to be accounted for as an adjustment to revenue or the carrying value of inventory as the case may be. Where extended payment terms are granted by the Group the effect of the time value of money is taken into account. The prior year results of discontinued operations have been restated to include a reclassification of R295 million from revenue to net operating expenses excluding impairment of assets and fair value adjustments.

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 classified as 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.

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 carrying value of the net assets and liabilities disposed of. On disposal, the amount attributed to goodwill is included in the determination of the profit or loss on disposal.

Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that it is controlled by the Group.

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 (equity accounted investees)
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 intergroup 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.

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.

Joint ventures (equity accounted investees)
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture agreements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities using the equity method except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations.*

Equity accounted income represents the Group's proportionate share of the post-acquisition profits of these entities and the share of taxation thereon, net of the Group's proportionate share of intergroup profits. Losses incurred by joint ventures (including impairment losses where such indications exist) are brought to account in the consolidated financial statements until the investment in such joint ventures is written down to a nominal value. Thereafter, losses are accounted for only insofar as the Group is committed to providing financial support to such joint ventures. The carrying amount of such investments is reduced to recognise any decline in the value of the investment.

The excess of cost of the acquisition over the fair value of the joint venture's net assets is 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.

Where the Group transacts with a joint venture of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

FOREIGN CURRENCY

Functional and presentation currencies

Items included in the financial statements of each of the Group'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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rates ruling at the original transaction date. Non-monetary assets and liabilities that are carried at fair value denominated in the foreign currency are translated into the functional currency at the exchange rate ruling when the fair value was determined.

All gains or losses arising on translation are recognised in the income statement and are classified as finance costs.

Financial statements of foreign operations

The financial statements of foreign operations are translated into South African rands as follows:

- Assets and liabilities, at rates of foreign exchange ruling at the balance sheet 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.

Any 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.

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 and associated costs.

Rental income

Revenue arising from the rental of property is recognised on an a straight-line basis over the term of the lease in accordance with the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total rental income.

Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract can not be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable in the period in which they are incurred. An expected loss on a contract is recognised immediately in the income statement.

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.

Transactions giving rise to adjustments to revenue/purchases
The Group accounts for cash discounts and rebates received (given) as follows:
- In the case of the Group as a purchaser, cash discounts and rebates received are estimated upfront and deducted from the cost of inventories purchased, and
- In the case of the Group as a seller, cash discounts and rebates given are estimated upfront and deducted from the amount of revenue recognised.

Where extended payment terms are granted by the Group, whether explicitly or implicitly, the effect of the time value of money is taken into account irrespective of other factors such as the cash selling prices of the goods.

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 classified as held-for-sale, inventories and deferred taxation 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to 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-taxation discount rate that reflects current market assessments of the time value of money and the risks specific to the asset and the operating division 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.

BORROWING COSTS
Borrowing costs are recognised in the income statement in the period in which they are incurred.

NET FINANCING COSTS
Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, foreign exchange gains and losses, and gains and losses on derivative instruments that are recognised in the income statement.

TAXATION

Income taxation on the profit or loss for the period 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 substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is provided using the balance sheet method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation bases. The following temporary differences are not provided for:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities (other than in a business combination), which affect neither accounting nor taxable profit or loss; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred taxation provided is based on the 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, or revalued amounts, less accumulated depreciation where appropriate and any accumulated impairment losses.

Recognition and measurement

Port operating assets, pipeline networks and port infrastructure assets are carried at revalued amounts. Revaluations are carried out every 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.

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, standby 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 repairs 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. The estimated useful lives for the current and comparative periods are as follows:

	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 value exceeds its estimated recoverable amount (refer note 4.4).

INVESTMENT PROPERTIES

Investment properties are properties held to either earn rentals and/or for capital appreciation and are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains and losses arising from changes in the fair value of investment properties are recognised in the income statement. Rental income from investment properties is accounted for as described in "REVENUE" on page 154.

INTANGIBLE ASSETS AND GOODWILL

Software and licences

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

Costs associated with researching or maintaining computer software 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 recognised in the income statement 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 recognised in the income statement as incurred, except where:

- 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 in which event the development costs are capitalised. 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 for the current and comparative periods are as follows:

Software	5 years
Licences	term of the licence

Positive goodwill
In respect of business combinations 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.

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 (refer “IMPAIRMENT OF ASSETS” on page 155). 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 reassessment of the identification and measurement of the acquiree’s identifiable assets, liabilities and contingent liabilities and the cost of the business combination.

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 and transaction costs for a financial asset or financial liability that is not carried at fair value through profit or loss. Subsequent to initial recognition these instruments are measured as set out below.

Recognition
The Group applies trade date accounting for “regular way” purchases and sales and settlement date accounting is applied to the Transnet bonds. 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) of 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.

In the Company's financial statements, investments in unlisted subsidiaries, jointly controlled entities and associates are carried at cost less accumulated impairment and losses where appropriate.

Other long-term investments that the Group is able to and intends to hold to maturity are subsequently measured at amortised cost using the effective interest 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.

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.

Subsequent to initial recognition, derivative financial instruments are measured at fair value. The fair value changes are recognised directly in the income statement (even if the derivative is designated as a hedging instrument refer below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the 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.

The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges). At the inception of the hedge relationship, the relationship between the hedging instrument and the hedged item is documented, along with its risk management objectives and its strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in the hedging relationship is highly effective in offsetting changes in fair values of cash flows of the hedged item.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

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. The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Group first becomes a party to the contract.

Subsequent reassessment is only performed by the Group if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

Loans receivable
Loans receivable are measured at amortised cost, using the effective interest rate method, less any impairment recognised. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Trade and other receivables
Trade and other receivables, which generally have 30 to 90-day terms, are recognised and carried at amortised cost using the effective interest method. Allowances for irrecoverable amounts are recognised in 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.

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

For the purposes of the consolidated cash flow statements, cash and cash equivalents include bank overdrafts.

Financial liabilities
After initial recognition, financial liabilities other than financial liabilities at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Financial liabilities at fair value through profit or loss are measured at fair value and the resultant gains and losses are included in profit or loss. Buybacks on bonds are recorded on a FIFO basis.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Trade payables and accruals
Liabilities for trade and other amounts payable which are settled within normal terms are stated at amortised cost.

Impairment of financial assets
An assessment is made at each 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 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 available-for-sale financial assets – 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 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.

CONSTRUCTION WORK IN PROGRESS
Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE AND DISCONTINUED OPERATIONS
Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable 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 the income statement, even when the assets have been recorded at revalued amounts. The same applies to gains and losses on subsequent measurement. A gain or subsequent increase in fair value less costs to sell may not exceed the cumulative impairment losses previously recognised in terms of IFRS 5 or IAS 36.

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

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. A disposal group that is to be abandoned may also qualify as a discontinued operation.

SHARE CAPITAL
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of taxation, from the proceeds. 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, re-issued or disposed of.

Dividends are recognised as a liability in the period in which they are declared.

EMPLOYEE BENEFITS

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

Defined contribution fund

The Group's contributions to the defined contribution fund are charged to the income statement during the period to which they relate.

Defined benefit funds

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

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 post-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.

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.

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 the lessee) is recognised on a straight-line basis over the lease term.

Sale and leaseback

Where a sale and leaseback agreement is classified as a finance lease, any excess of the sale proceeds over the carrying 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.

Determining whether an arrangement contains a lease

The Group ensures that the following two requirements are met, in order for an arrangement transacted by the Group to be classified as a lease in terms of IAS 17:

- Fulfilment of the arrangement is dependant on the use of an asset or assets, and this fact is not necessarily explicitly stated by the contract but rather implied; and
- The arrangement conveys a right to use the asset, if one of the following conditions is met:
  - The purchaser has the ability or right to operate the asset or direct others to operate the asset, (while obtaining or controlling more than an insignificant amount of the output of the asset); or
  - The purchaser has the ability or right to control physical access to the asset, (while obtaining more than an insignificant amount of the output of the asset); or
  - There is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output of the asset, and the price that the purchaser will pay is neither fixed per unit of output nor equal to the current market price at the time of delivery.

The Group's assessment of whether an arrangement contains a lease is made at the inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances as specified by IFRIC 4.

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 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

Financial guarantees
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of the debt instrument. The Group recognises financial guarantee contracts initially at fair value. Subsequently these are recognised at the higher of:

- the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

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.

ACCOUNTING POLICIES RELATING TO DISCONTINUED OPERATIONS
Critical judgements and estimates 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:

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 South African Airways (Pty) Ltd 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 29.

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 12 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 12 months to be processed.

Significant accounting policies

Basis of preparation

Subsequent to the adoption of IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* on 1 April 2005, non-current assets classified as held-for-sale and disposal groups are stated at the lower of their carrying amount and fair value less costs to sell.

Foreign currency

Foreign currency transactions

In the case of aviation operations, 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.

Financial instruments

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 measured at 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 measured 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.

Trade payables and accruals

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.

Employee benefits

Share-based payment transactions

South African Airways (Pty) Ltd (SAA), 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 to be 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 measured at each balance sheet date until it is settled. Any changes in the fair value of the liability are recognised as an employee cost.

INCOME STATEMENTS

for the year ended 31 March 2007

COMPANY				GROUP	
2006 Restated* R million	**2007 R million**		Notes	**2007 R million**	2006 Restated* R million
		Continuing operations			
25 174	**26 890**	**Revenue**	2	**28 214**	26 034
(15 869)	**(16 196)**	Net operating expenses excluding depreciation and amortisation	3	**(16 726)**	(15 733)
9 305	**10 694**	**Profit from operations before depreciation, amortisation and items listed below**		**11 488**	10 301
(2 084)	**(2 958)**	Depreciation and amortisation	4.1	**(3 018)**	(2 163)
7 221	**7 736**	**Profit from operations before the items listed below**	4.2	**8 470**	8 138
322	**–**	Profit on sale of interest in businesses	4.3	**–**	329
(197)	**(80)**	Impairment of assets	4.4	**(232)**	(124)
340	**47**	Dividends received		**36**	85
278	**663**	Fair value adjustments	5	**2 385**	815
7 964	**8 366**	**Profit from operations before net finance costs**		**10 659**	9 243
(2 485)	**(2 412)**	Finance costs	6	**(2 624)**	(2 668)
302	**225**	Finance income	7	**187**	262
5 781	**6 179**	**Profit before taxation**		**8 222**	6 837
(1 964)	**(1 882)**	Taxation	8	**(1 902)**	(2 042)
3 817	**4 297**	**Profit after taxation**		**6 320**	4 795
		Income from associates	13	**2**	33
3 817	**4 297**	**Profit for the year from continuing operations**		**6 322**	4 828
		Discontinued operations			
212	**997**	Profit from discontinued operations, including profit on disposal of discontinued operations and impairments	1	**1 082**	102
4 029	**5 294**	**Profit for the year**		**7 404**	4 930
		Attributable to equity holder		**7 387**	4 898
		Attributable to minority interests	23	**17**	32
3 835	**3 846**	**Headline earnings**	36	**5 700**	4 383

* Refer note 37 for details of the restatements to prior year results.

BALANCE SHEETS

as at 31 March 2007

COMPANY				GROUP	
2006 Restated* R million	**2007 R million**		Notes	**2007 R million**	2006 Restated* R million
		ASSETS			
		Non-current assets			
44 617	**53 314**	Property, plant and equipment	9	**53 826**	45 181
2 337	**2 820**	Investment properties	10	**2 859**	2 369
168	**204**	Intangible assets and goodwill	11	**207**	172
279	**374**	Investments in subsidiaries	12		
81	**28**	Investments in associates and joint ventures	13	**47**	98
216	**321**	Derivative financial assets	14	**321**	217
2 022	**123**	Long-term loans and advances	15	**123**	2 019
29	**328**	Other investments and long-term financial assets	16	**460**	88
49 749	**57 512**			**57 843**	50 144
		Current assets			
1 348	**1 750**	Inventories	17	**1 798**	1 396
3 895	**3 716**	Trade and other receivables	18	**3 992**	4 149
88	**192**	Derivative financial assets	14	**5 658**	3 874
642	**703**	Other short-term investments	16	**704**	643
1 114	**3 142**	Cash and cash equivalents	19	**3 347**	1 400
3 336	**2 821**	Assets classified as held-for-sale	20	**3 912**	16 740
10 423	**12 324**			**19 411**	28 202
60 172	**69 836**	**Total assets**		**77 254**	78 346
		EQUITY AND LIABILITIES			
		Capital and reserves			
14 710	**12 661**	Issued capital	21	**12 661**	14 710
12 548	**20 515**	Reserves	22	**24 650**	14 703
27 258	**33 176**	**Attributable to the equity holder**		**37 311**	29 413
		Minority interests	23	**122**	113
27 258	**33 176**			**37 433**	29 526
		Non-current liabilities			
4 348	**2 422**	Post-retirement benefit obligations	24	**2 422**	4 348
15 940	**17 241**	Long-term borrowings	25	**17 535**	16 534
370	**240**	Derivative financial liabilities	14	**240**	408
830	**925**	Long-term provisions	26	**928**	847
50	**1 670**	Deferred taxation liabilities	27	**1 707**	52
21 538	**22 498**			**22 832**	22 189
		Current liabilities			
4 977	**5 709**	Trade payables and accruals	29	**5 875**	5 207
3 212	**5 201**	Short-term borrowings	30	**7 615**	5 323
1 259	**482**	Current taxation liability		**502**	1 283
140	**165**	Derivative financial liabilities	14	**165**	153
1 664	**2 367**	Short-term provisions	26	**2 376**	1 699
32	**25**	Bank overdrafts	19	**26**	34
92	**213**	Liabilities directly associated with assets classified as held-for-sale	20	**430**	12 932
11 376	**14 162**			**16 989**	26 631
60 172	**69 836**	**Total equity and liabilities**		**77 254**	78 346

* Refer note 37 for details of the restatements to prior year results.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 March 2007

COMPANY 2006 Restated R million	COMPANY 2007 R million		Notes	GROUP 2007 R million	GROUP 2006 Restated R million
164	**1 461**	**Net gains on revaluation reserves**		**1 384**	198
233	**1 621**	Gains on revaluations		**1 574**	267
(245)	**–**	Net realisation of the surplus on the MTN shares transferred to profit and loss	22	**–**	(245)
–	**–**	Net realisation of the equity accounted non-distributable reserve relating to V&A Waterfront Holdings (Pty) Ltd	22	**(119)**	–
376	**963**	Net gain on revaluation of port facilities	22	**963**	376
102	**658**	Net gain on revaluation of pipeline networks	22	**658**	102
–	**–**	Gain on revaluation of other investments	22	**72**	34
(69)	**(160)**	Taxation effect of revalued items	22	**(190)**	(69)
(1)	**–**	**Net movement on foreign currency translation reserve**	22	**(36)**	36
(30)	**(842)**	**Net decrease in other reserves**	22	**(857)**	(73)
1 777	**1 212**	**Net actuarial gains on post-retirement benefit obligations**		**1 212**	1 774
2 502	**1 707**	Actuarial gains related to post-retirement benefit obligations	22	**1 707**	2 499
22	**(157)**	– Actuarial (loss)/gain on the Transnet Pension Fund	33.1.2	**(167)**	22
2 644	**1 646**	– Actuarial gain on the Transnet Second Defined Pension Fund	33.1.3	**1 646**	2 644
(17)	**4**	– Actuarial gain/(loss) on the Transnet Top Management Pensions	33.1.4	**4**	(17)
(26)	**–**	– Actuarial loss on the Transnet Workmen's Compensation Act Pensioners	33.1.4	**–**	(26)
(5)	**3**	– Actuarial gain/(loss) on the Transnet Black Widows' Pension Benefit	33.1.5	**3**	(5)
(82)	**134**	– Actuarial gain/(loss) on the Transnet SATS Pensioners medical benefits	33.2.1	**134**	(82)
(34)	**77**	– Actuarial gain/(loss) on the Transnet Employees medical benefits	33.2.2	**87**	(37)
(725)	**(495)**	Taxation effect of net actuarial gains		**(495)**	(725)
1 910	**1 831**	**Net income recognised directly in equity**		**1 703**	1 935
30	**842**	**Transferred to accumulated profit**		**857**	75
4 029	**5 294**	**Profit for the year**		**7 404**	4 930
5 969	**7 967**	**Total recognised income for the year**		**9 964**	6 940
5 969	**7 967**	Attributable to equity holder		**9 947**	6 908
–	**–**	Attributable to minority interests	23	**17**	32
5 969	**7 967**			**9 964**	6 940

TRANSNET

COMPANY				GROUP	
2006 Restated R million	2007 R million		Notes	2007 R million	2006 Restated R million
4 997	**7 841**	**Cash flows from operating activities**		**8 851**	5 865
9 742	**11 651**	Cash generated from operations	35.1	**13 488**	11 244
(184)	**412**	Changes in working capital	35.2	**133**	(418)
9 558	**12 063**	Cash generated from operations after working capital changes		**13 621**	10 826
(2 246)	**(2 077)**	Finance costs	35.3	**(2 791)**	(2 900)
352	**225**	Finance income		**304**	418
(2 041)	**(1 901)**	Taxation paid	35.4	**(1 961)**	(2 106)
(362)	**(421)**	Settlement of post-retirement benefit obligations		**(453)**	(362)
(264)	**(48)**	Derivatives raised and settled		**139**	(4)
		Dividends paid to minorities	35.5	**(8)**	(7)
(3 634)	**(8 405)**	**Cash flows from investing activities**		**(10 755)**	(2 479)
(2 212)	**(5 228)**	Investment to maintain operations		**(7 257)**	(970)
(4 375)	**(7 907)**	Replacements to property, plant and equipment		**(8 176)**	(4 856)
(65)	**(6)**	Additions to intangible assets		**(108)**	(75)
–	**(1)**	Intercompany transfers of intangible assets		**–**	–
90	**220**	Proceeds on the disposal of property, plant and equipment		**315**	1 682
–	**2**	Proceeds on the disposal of intangible assets		**3**	–
106	**–**	(Cash)/overdraft disposed on the disposal of subsidiaries/divisions	35.6	**(1 922)**	106
–	**1 854**	Proceeds on the disposal of associates		**1 854**	–
449	**–**	Proceeds on the sale of other investments		**–**	567
340	**47**	Dividend income		**36**	85
(190)	**59**	Acquisition of subsidiary/division	35.7	**–**	–
(78)	**–**	Settlement of net liability on disposal of the business of Spoornet Zambia		**–**	(78)
–	**(4)**	Acquisition of associates		**(4)**	**–**
(8)	**117**	Net loans to subsidiaries and associates		**4**	6
796	**525**	Net receipts of long-term loans and advances		**522**	798
723	**(134)**	Decrease/(increase) in other investments		**219**	795
(1 422)	**(3 177)**	Investment to expand operations		**(3 498)**	(1 509)
(1 422)	**(3 177)**	Expansions – property, plant and equipment		**(3 498)**	(1 745)
–	**–**	Refunded pre-delivery payments on aircraft		**–**	236
(2 060)	**2 599**	**Cash flows from financing activities**		**3 669**	(4 001)
(2 060)	**2 599**	Borrowings raised/(repaid)		**3 669**	(4 001)
(697)	**2 035**	Net increase/(decrease) in cash and cash equivalents		**1 765**	(615)
1 779	**1 082**	Cash and cash equivalents at the beginning of the year		**1 691**	2 306
1 082	**3 117**	**Total cash and cash equivalents at the end of the year**		**3 456**	1 691
1 082	**3 117**	**Cash and cash equivalents at the end of the year**	19	**3 321**	1 366
–	**–**	**Transferred to assets classified as held-for-sale**		**135**	325
		Cash flows from discontinued operations			
(100)	**(39)**	Cash flows from operating activities		**389**	(3)
(2)	**4**	Cash flows from investing activities		**(284)**	1 714
64	**35**	Cash flows from financing activities		**706**	(1 894)
(38)	**–**	**Net increase/(decrease) in cash and cash equivalents**		**811**	(183)

SEGMENTAL ANALYSIS

for the year ended 31 March 2007

Based on risk and returns the Directors consider that the primary reporting format is by business segment. The Group is organised into different operating divisions and subsidiaries. This is 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	
	2007 **R million**	2006 Restated R million	**2007** **R million**	2006 Restated R million	**2007** **R million**	2006 Restated R million
External revenue	**50 301**	48 261	**15 272**	16 545	**9 780**	8 738
Internal revenue	**–**	–	**6 941**	3 391	**424**	2
Total segment revenue	**50 301**	48 261	**22 213**	19 936	**10 204**	8 740
Revenue for discontinued operations	**(22 087)**	(22 227)	**(323)**	(2 157)	**–**	–
Revenue for continuing operations	**28 214**	26 034	**21 890**	17 779	**10 204**	8 740
Net operating expenses for continuing operations excluding depreciation and amortisation	**(16 726)**	(15 733)	**(17 065)**	(14 443)	**(4 016)**	(3 696)
Total net operating expenses	**(38 829)**	(36 900)	**(17 633)**	(16 864)	**(4 016)**	(3 696)
Discontinued operations	**22 103**	21 167	**568**	2 421	**–**	–
Profit/(loss) from operations before depreciation and amortisation	**11 488**	10 301	**4 825**	3 336	**6 188**	5 044
Depreciation and amortisation for continuing operations	**(3 018)**	(2 163)	**(1 818)**	(1 017)	**(754)**	(706)
Total depreciation and amortisation	**(3 020)**	(3 240)	**(1 820)**	(1 017)	**(754)**	(706)
Discontinued operations	**2**	1 077	**2**	–	**–**	–
Profit/(loss) from operations before items listed below	**8 470**	8 138	**3 007**	2 319	**5 434**	4 338
Profit/(loss) on sale of interests in businesses and dividends received for continuing operations	**36**	414	**–**	(23)	**2**	–
Total profit/(loss) on sale of interests in businesses and dividends received	**1 673**	563	**–**	(23)	**2**	–
Discontinued operations	**(1 637)**	(149)	**–**	–	**–**	–
(Impairments)/reversal of impairment of assets for continuing operations	**(232)**	(124)	**(42)**	(127)	**(26)**	(20)
Total (impairments)/reversal of impairment of assets	**(218)**	(77)	**(42)**	(127)	**(26)**	(20)
Discontinued operations	**(14)**	(47)	**–**	–	**–**	–
Fair value adjustments for continuing operations	**2 385**	815	**117**	42	**425**	278
Total fair value adjustments	**2 454**	1 089	**117**	43	**425**	278
Discontinued operations	**(69)**	(274)	**–**	(1)	**–**	–
Segment profit/(loss) from continuing operations before net finance costs	**10 659**	9 243	**3 082**	2 211	**5 835**	4 596
Finance costs for continuing operations	**(2 624)**	(2 668)	**(1 257)**	(971)	**(530)**	(546)
Total finance costs	**(3 062)**	(3 352)	**(1 257)**	(972)	**(530)**	(546)
Discontinued operations	**438**	684	**–**	1	**–**	–
Finance income for continuing operations	**187**	262	**14**	22	**365**	184
Total finance income	**304**	418	**14**	80	**365**	184
Discontinued operations	**(117)**	(156)	**–**	(58)	**–**	–
Segment profit/(loss) before taxation from continuing operations	**8 222**	6 837	**1 839**	1 262	**5 670**	4 234
Taxation	**(1 902)**	(2 042)	**(626)**	(808)	**(1 681)**	(1 412)
Total taxation	**(2 203)**	(2 117)	**(626)**	(808)	**(1 681)**	(1 412)
Discontinued operations	**301**	75	**–**	–	**–**	–
Segment profit/(loss) after taxation from continuing operations	**6 320**	4 795	**1 213**	454	**3 989**	2 822
Income from associates of continuing operations	**2**	33	**–**	–	**–**	–
Total income from associates	**4**	285	**–**	–	**–**	–
Discontinued operations	**(2)**	(252)	**–**	–	**–**	–
Profit/(loss) from continuing operations	**6 322**	4 828	**1 213**	454	**3 989**	2 822
Profit/(loss) from discontinued operations including profit on disposal of discontinued operations and impairments	**1 082**	102	**(247)**	(206)	**–**	–
Profit for the period	**7 404**	4 930	**966**	248	**3 989**	2 822
Minority interests	**(17)**	(32)	**–**	–	**–**	–
Segment profit/(loss) for the year attributable to equity holder	**7 387**	4 898	**966**	248	**3 989**	2 822
Other information* **						
Segment assets	**77 106**	76 966	**30 499**	23 759	**26 102**	22 655
Investments in associates	**148**	1 380	**–**	–	**2**	4
Consolidated total assets	**77 254**	78 346	**30 499**	23 759	**26 104**	22 659
Segment liabilities	**37 612**	47 485	**17 774**	12 097	**2 635**	3 641
Income taxation liabilities	**502**	1 283	**(142)**	509	**1 549**	1 345
Deferred taxation liabilities	**1 707**	52	**1 625**	499	**664**	265
Consolidated total liabilities	**39 821**	48 820	**19 257**	13 105	**4 848**	5 251
Capital expenditure	**11 674**	6 601	**8 010**	4 003	**2 875**	1 569

* Other operations incorporates all other operating divisions and subsidiaries and Company/Group adjustments and reclassifications.
** Prior to set-off of pre-delivery payments refunded on South African Airways (Pty) Ltd aircraft amounting to R 236 million.
*** Including discontinued operations.

Rail includes Freight Rail, Rail Engineering, Shosholoza Meyl, Luxrail and Metrorail.
Maritime includes National Ports Authority and Port Terminals.
Aviation includes South African Airways (Pty) Ltd and South African Express Airways (Pty) Ltd.
Road includes freightdynamics, Autopax Passenger Services (Pty) Ltd and Viamax (Pty) Ltd.
Property includes Transnet Properties, Transhold Properties (Pty) Ltd and Proptrade (Pty) Ltd.

	Pipeline		Aviation		Road		Property		Other operations*		Intercompany elimination	
	2007 R million	2006 Restated R million	**2007 R million**	2006 Restated R million	**2007 R million**	2006 Restated R million	**2007 R million**	2006 Restated R million	**2007 R million**	2006 Restated R million	**2007 R million**	2006 Restated R million
	1 216	1 058	21 960	19 936	1 112	1 009	165	215	796	760	–	–
	2	–	–	361	477	621	90	75	2 047	2 530	(9 981)	(6 980)
	1 218	1 058	21 960	20 297	1 589	1 630	255	290	2 843	3 290	(9 981)	(6 980)
	–	–	(20 645)	(19 329)	(1 589)	(1 604)	–	–	(7)	(34)	477	897
	1 218	1 058	1 315	968	–	26	255	290	2 836	3 256	(9 504)	(6 083)
	(287)	(198)	(1 007)	(661)	–	(20)	(194)	(176)	(3 415)	(2 938)	9 258	6 399
	(287)	(198)	(21 518)	(18 845)	(1 258)	(1 197)	(194)	(176)	(3 395)	(2 966)	9 472	7 042
	–	–	20 511	18 184	1 258	1 177	–	–	(20)	28	(214)	(643)
	931	860	308	307	–	6	61	114	(579)	318	(246)	316
	(259)	(237)	(59)	(50)	–	–	(31)	(27)	(121)	(126)	24	–
	(259)	(237)	(803)	(896)	(245)	(231)	(31)	(27)	868	(126)	24	–
	–	–	744	846	245	231	–	–	(989)	–	–	–
	672	623	249	257	–	6	30	87	(700)	192	(222)	316
	–	–	–	–	–	–	(1)	–	47	693	(12)	(256)
	–	–	–	–	–	–	(1)	–	1 684	842	(12)	(256)
	–	–	–	–	–	–	–	–	(1 637)	(149)	–	–
	–	–	–	(24)	–	(6)	1	(5)	(165)	58	–	–
	–	–	17	23	(1)	(6)	1	(5)	(167)	58	–	–
	–	–	(17)	(47)	1	–	–	–	2	–	–	–
	–	–	3	38	–	–	198	86	1 642	371	–	–
	–	–	72	311	–	–	198	86	1 642	371	–	–
	–	–	(69)	(273)	–	–	–	–	–	–	–	–
	672	623	252	271	–	–	228	168	824	1 314	(234)	60
	(301)	(298)	(88)	(101)	–	(1)	(10)	–	(4 987)	(4 446)	4 549	3 695
	(301)	(298)	(526)	(782)	(48)	(48)	(10)	–	(4 987)	(4 446)	4 597	3 740
	–	–	438	681	48	47	–	–	–	–	(48)	(45)
	73	47	2	10	–	7	30	17	4 280	3 667	(4 577)	(3 692)
	73	47	130	147	8	12	30	17	4 281	3 671	(4 597)	(3 740)
	–	–	(128)	(137)	(8)	(5)	–	–	(1)	(4)	20	48
	444	372	166	180	–	6	248	185	117	535	(262)	63
	(107)	(161)	–	–	–	(3)	(7)	(102)	519	444	–	–
	(107)	(161)	(42)	(12)	(47)	(66)	(7)	(102)	307	444	–	–
	–	–	42	12	(47)	63	–	–	212	–	–	–
	337	211	166	180	–	3	241	83	636	979	(262)	63
	–	–	–	–	–	–	–	–	2	33	–	–
	–	–	–	–	–	–	–	–	4	285	–	–
	–	–	–	–	–	–	–	–	(2)	(252)	–	–
	337	211	166	180	–	3	241	83	638	1 012	(262)	63
	–	–	(876)	63	2	91	–	–	2 442	(96)	(235)	250
	337	211	(710)	243	(2)	94	241	83	3 080	916	(497)	313
	–	–	–	–	(17)	(32)	–	–	–	–	–	–
	337	211	(710)	243	(19)	62	241	83	3 080	916	(497)	313
	4 555	3 793	916	14 589	1 744	1 877	1 757	1 607	15 567	15 042	(4 034)	(6 356)
	–	–	–	–	–	–	3	4	143	1 372	–	–
	4 555	3 793	916	14 589	1 744	1 877	1 760	1 611	15 710	16 414	(4 034)	(6 356)
	1 423	1 502	1 077	13 667	840	979	(82)	39	16 804	17 842	(2 859)	(2 282)
	157	179	–	–	–	–	(14)	31	(1 048)	(781)	–	–
	466	(88)	(9)	–	–	–	86	81	(1 125)	(705)	–	–
	2 046	1 593	1 068	13 667	840	979	(10)	151	14 631	16 356	(2 859)	(2 282)
	310	220	341	438**	302	446	30	11	321	347	(515)	(433)

COMPANY 2006 Restated R million	COMPANY 2007 R million		Notes	GROUP 2007 R million	GROUP 2006 Restated R million
		1. DISCONTINUED OPERATIONS			
		The profit from discontinued operations, including profit on disposal of discontinued operations and impairments, comprises:			
63	**(76)**	(Loss)/profit from discontinued operations (refer below)		**(349)**	(47)
149	**1 073**	Profit on disposal of discontinued operations, net of taxation	4.3	**1 433**	149
–	**–**	Impairments – Lower of carrying value and fair value less costs to sell	4.4	**(2)**	–
212	**997**			**1 082**	102
		(Loss)/profit from discontinued operations			
2 703	**1 001**	Revenue	2	**22 087**	22 227
(2 657)	**(1 074)**	Net operating expenses excluding depreciation and amortisation	3	**(22 103)**	(21 167)
46	**(73)**	**(Loss)/profit from operations before depreciation and amortisation**		**(16)**	1 060
(32)	**(2)**	Depreciation and amortisation	4.1	**(2)**	(1 077)
14	**(75)**	**(Loss)/profit from operations before the items listed below**	4.2	**(18)**	(17)
–	**(1)**	Reversal of impairment/(impairment) of assets	4.4	**16**	47
–	**–**	Fair value adjustments	5	**69**	274
14	**(76)**	**Profit/(loss) from operations before net finance costs**		**67**	304
(1)	**–**	Finance costs	6	**(438)**	(684)
50	**–**	Finance income	7	**117**	156
63	**(76)**	**(Loss)/profit before taxation**		**(254)**	(224)
–	**–**	Taxation	8	**(97)**	(75)
63	**(76)**	**(Loss)/profit after taxation**		**(351)**	(299)
		Income from associates	13	**2**	252
63	**(76)**	**(Loss)/profit for the year**		**(349)**	(47)
		Attributable to the shareholder		**(366)**	(79)
		Attributable to minority interests	23	**17**	32
		(For details of which entities are discontinued, refer annexure C.)			
		2. REVENUE			
25 724	**26 606**	Rendering of services		**48 683**	45 765
608	**511**	Rental income		**844**	951
304	**236**	Finance income from lending activities		**236**	304
188	**538**	Construction contracts (refer note 28)		**538**	188
14	**–**	Notional revenue on embedded derivatives		**–**	14
1 039	**–**	Other		**–**	1 039
27 877	**27 891**			**50 301**	48 261
(2 703)	**(1 001)**	Discontinued operations		**(22 087)**	(22 227)
25 174	**26 890**	Continuing operations		**28 214**	26 034

Other revenue in the prior year was a contractual payment from the South African Government through the South African Railway Commuter Corporation (SARCC) of R1 039 million. This payment was applied in the operation of the commuter rail network operated by Metrorail, which was disposed of at 26 December 2005.

COMPANY			GROUP	
2006 Restated R million	**2007 R million**		**2007 R million**	2006 Restated R million
		3. NET OPERATING EXPENSES EXCLUDING DEPRECIATION AND AMORTISATION		
113	**99**	Accommodation and refreshments	**798**	784
439	**829**	Electronic data costs	**1 308**	982
2 467	**2 437**	Energy costs	**8 567**	7 790
162	**145**	Health and sanitation	**228**	237
154	**193**	Insurance	**315**	297
890	**576**	Maintenance	**769**	633
568	**773**	Managerial and technical consulting fees (refer note 4.2)	**943**	701
1 540	**288**	Material costs	**2 008**	2 742
–	**–**	Navigation, landing and parking fees	**1 131**	1 056
968	**1 461**	Operating lease charges (refer note 4.2)	**3 872**	3 168
–	**–**	Passenger handling, rescheduling and airline costs	**1 718**	1 525
9 062	**7 979**	Personnel costs	**11 303**	12 532
775	**977**	Post-retirement benefit obligation costs	**1 285**	1 027
60	**49**	Printing and stationery	**93**	127
19	**(6)**	(Profit)/loss on disposal of property, plant and equipment (refer note 4.2)	**(27)**	(267)
54	**69**	Promotions and advertising	**540**	745
470	**268**	Security	**365**	565
–	**–**	Share-based payments expense	**–**	2
90	**18**	Telecommunications	**48**	133
11	**45**	Transport	**744**	184
684	**1 070**	Other	**2 821**	1 937
18 526	**17 270**		**38 829**	36 900
(2 657)	**(1 074)**	Discontinued operations	**(22 103)**	(21 167)
15 869	**16 196**	Continuing operations	**16 726**	15 733
		4.1 DEPRECIATION AND AMORTISATION		
2 065	**2 879**	**Depreciation (refer annexure B)**	**2 939**	3 187
1 825	**2 580**	Depreciation – Owned assets at historic cost	**2 615**	2 914
–	**–**	Aircraft	**42**	796
184	**301**	Land, buildings and structures	**301**	235
274	**295**	Machinery, equipment and furniture	**295**	315
134	**242**	Permanent way and works	**240**	133
141	**120**	Pipeline networks	**119**	141
349	**409**	Port facilities	**405**	349
696	**1 188**	Rolling stock and containers	**1 188**	698
47	**25**	Vehicles	**25**	247

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		4.1	**DEPRECIATION AND AMORTISATION (continued)**		
			Depreciation (refer annexure B) (continued)		
240	**244**		Depreciation – Owned assets revalued portion	**244**	240
73	**118**		Pipeline networks	**118**	73
167	**126**		Port facilities	**126**	167
–	**55**		Depreciation – Leased assets	**80**	33
–	**16**		Rolling stock and containers	**16**	–
–	**39**		Machinery, equipment and furniture	**39**	–
–	**–**		Aircraft	**25**	33
(31)	**(2)**		Discontinued operations	**(2)**	(1 076)
2 034	**2 877**		Continuing operations	**2 937**	2 111
51	**81**		**Amortisation of intangible assets (refer note 11)**	**81**	53
(23)	**–**		Development	**–**	(23)
74	**81**		Software and licenses	**81**	76
(1)	**–**		Discontinued operations	**–**	(1)
50	**81**		Continuing operations	**81**	52
2 084	**2 958**		**Total depreciation and amortisation**	**3 018**	2 163
		4.2	**PROFIT FROM OPERATIONS BEFORE PROFIT OF SALE OF INTEREST IN BUSINESSES, IMPAIRMENT OF ASSETS, DIVIDENDS RECEIVED, FAIR VALUE ADJUSTMENTS AND NET FINANCE COSTS**		
			is stated after taking into account the following amounts:		
			Auditors' remuneration		
80	**46**		Group auditors	**69**	103
58	**47**		Audit fees	**69**	80
5	**(8)**		Audit fees – prior year (overprovision)/underprovision	**(7)**	5
15	**4**		Fees for other services	**4**	15
2	**3**		Expenses	**3**	3
(2)	**(1)**		Discontinued operations	**(22)**	(26)
78	**45**		Continuing operations	**47**	77
568	**773**		**Managerial and technical consulting fees**	**943**	701
(31)	**(8)**		Discontinued operations	**(176)**	(155)
537	**765**		Continuing operations	**767**	546

COMPANY				GROUP	
2006 Restated R million	2007 R million			2007 R million	2006 Restated R million
		4.2	**PROFIT FROM OPERATIONS BEFORE PROFIT OF SALE OF INTEREST IN BUSINESSES, IMPAIRMENT OF ASSETS, DIVIDENDS RECEIVED, FAIR VALUE ADJUSTMENTS AND NET FINANCE COSTS (continued)**		
968	**1 461**		**Operating lease charges**	**3 872**	3 168
33	**1**		Aircraft	**2 608**	2 005
129	**588**		Land, buildings and structures	**678**	207
806	**872**		Other	**586**	956
(95)	**(62)**		Discontinued operations	**(2 779)**	(2 214)
873	**1 399**		Continuing operations	**1 093**	954
19	**(6)**		**(Profit)/loss on disposal of property, plant and equipment**	**(27)**	(267)
4	**(10)**		Discontinued operations	**11**	304
23	**(16)**		Continuing operations	**(16)**	37
15	**68**		**Research and development costs**	**68**	17
–	**–**		Discontinued operations	**(1)**	(2)
15	**68**		Continuing operations	**67**	15
47	**56**		**Directors' and executives' emoluments (full details are disclosed in the report of the Directors)**	**79**	76
11	**14**		Executive Directors	**34**	36
5	**6**		Non-executive Directors	**9**	9
31	**36**		Senior executives	**36**	31
	–		Discontinued operations	**(20)**	(25)
47	**56**		Continuing operations	**59**	51
471	**1 073**	4.3	**PROFIT ON DISPOSAL OF INTEREST IN BUSINESSES**	**1 433**	478
–	**–**		Profit on sale of interest in South African Airways (Pty) Ltd*	**938**	–
–	**1 230**		Profit on sale of interest in V&A Waterfront Holdings (Pty) Ltd	**711**	–
–	**47**		(Loss)/profit on sale of interest in Equity Aviation (Pty) Ltd	**(12)**	–
–	**(204)**		Capital gains taxation on disposal of interest in V&A Waterfront Holdings (Pty) Ltd and Equity Aviation (Pty) Ltd	**(204)**	–
67	**–**		Profit on sale of interest in divisions and operations	**–**	67
404	**–**		Disposal of investment in MTN Group Ltd	**–**	404
–	**–**		Other	**–**	7
(149)	**(1 073)**		Discontinued operations	**(1 433)**	(149)
322	**–**		Continuing operations	**–**	329
		4.4	**IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS**		
197	**81**		Impairment of assets	**218**	77
64	**115**		Property, plant and equipment	**154**	16
234	**(154)**		Loss-making subsidiaries and associates	**–**	141
(101)	**120**		Trade and other receivables and loans and advances	**64**	(80)
–	**(1)**		Discontinued operations – reversal	**14**	47
197	**80**		Continuing operations	**232**	124

* Excluding the effect of the share buy-back of R2 049 million (refer note 21). The total effect is a R1 011 million decrease in net equity.

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		5.	**FAIR VALUE ADJUSTMENTS**		
(2)	**44**		Derivative fair value adjustments	**245**	271
–	**–**		Revaluation of C class preference shares (refer note 14)	**1 713**	500
373	**483**		Fair value adjustment of investment properties	**490**	372
(136)	**(86)**		Fair value adjustments to treasury bonds	**(86)**	(136)
–	**233**		Gains on hedging instruments	**94**	–
43	**(11)**		Other fair value adjustments	**(2)**	82
278	**663**			**2 454**	1 089
–	**–**		Discontinued operations	**(69)**	(274)
278	**663**		Continuing operations	**2 385**	815
			Reconciliation of fair value adjustments to note 14		
278	**663**		Fair value adjustments per above	**2 454**	1 089
14	**–**		Embedded derivative recognised in revenue (refer note 2)	**–**	14
(373)	**(483)**		Fair value adjustment of investment properties (refer note 10)	**(490)**	(372)
136	**86**		Treasury bonds	**86**	136
(27)	**–**		Other fair value adjustments	**–**	(4)
28	**266**		**Fair value adjustments**	**2 050**	863
28	**266**		– Per note 14	**1 981**	863
–	**–**		– Per annexure C, note e	**69**	–
		6.	**FINANCE COSTS**		
21	**32**		Net foreign exchange (gains)/losses on translation	**(32)**	233
219	**303**		Discounts on bonds amortised	**303**	219
2 246	**2 077**		Interest cost	**2 791**	2 900
2 486	**2 412**			**3 062**	3 352
(1)	**–**		Discontinued operations	**(438)**	(684)
2 485	**2 412**		Continuing operations	**2 624**	2 668
		7.	**FINANCE INCOME**		
276	**160**		Interest received from other investments	**304**	418
76	**65**		Interest received from subsidiaries	**–**	–
352	**225**			**304**	418
(50)	**–**		Discontinued operations	**(117)**	(156)
302	**225**		Continuing operations	**187**	262

COMPANY			GROUP	
2006 Restated R million	**2007 R million**		**2007 R million**	2006 Restated R million
		8. TAXATION		
		South African normal taxation		
1 688	**971**	– Current year	**1 004**	1 811
–	**–**	– Prior year	**41**	12
		Deferred taxation (refer note 27 and annexure C, note n)		
276	**1 001**	– Current year	**1 034**	287
(58)	**(36)**	– Prior year	**(36)**	(58)
		Secondary taxation on companies		
–	**–**	– Current year	**3**	–
		Capital gains taxation		
58	**150**	– Current year	**150**	58
		Foreign taxation		
–	**–**	– Current year	**7**	7
1 964	**2 086**		**2 203**	2 117
–	**(204)**	Discontinued operations	**(301)**	(75)
1 964	**1 882**	Continuing operations	**1 902**	2 042
%	**%**	**Reconciliation of taxation rate**	**%**	%
29,00	**29,00**	Standard rate – South African normal taxation	**29,00**	29,00
3,77	**(0,73)**	Adjustment for differences	**(6,07)**	2,31
3,77	**(2,27)**	(Expenses)/income not included for taxation purposes	**(9,64)**	3,73
0,96	**2,03**	Capital gains taxation	**1,56**	0,86
–	**–**	Secondary taxation on companies	**0,03**	–
–	**–**	Deferred taxation not provided	**2,74**	(1,60)
–	**–**	Assessed loss utilised	**(0,81)**	–
(0,96)	**(0,49)**	Adjustment to prior year deferred taxation charge	**(0,37)**	(0,86)
–	**–**	Adjustment to prior year current taxation charge	**0,42**	0,18
32,77	**28,27**	Effective rate of taxation	**22,93**	31,31
–	**16,99**	Discontinued operations	**21,76**	100,00
33,97	**30,46**	Continuing operations	**23,13**	29,87
R million	**R million**		**R million**	R million
–	**–**	Total estimated taxation losses	**552**	12 380
–	**–**	Discontinued operations	**(95)**	(11 905)
–	**–**	Continuing operations	**457**	475

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		9. PROPERTY, PLANT AND EQUIPMENT (refer annexure B)		
		Property, plant and equipment is stated at historical cost except for pipeline networks and port facilities, which are stated at revalued amounts.		
44 617	**53 314**	**Net book value**	**53 826**	45 181
70 456	**80 952**	Gross carrying value	**82 039**	71 505
(25 839)	**(27 638)**	Accumulated depreciation and impairment	**(28 213)**	(26 324)
		Comprising:		
		Historical cost		
42 135	**49 050**	**Gross carrying value**	**50 192**	43 184
26	**26**	– Aircraft	**1 123**	1 045
9 571	**9 938**	– Land, buildings and structures	**9 958**	9 575
3 857	**3 482**	– Machinery, equipment and furniture	**3 533**	3 914
7 672	**7 935**	– Permanent way and works	**7 880**	7 617
13 142	**17 715**	– Rolling stock and containers	**17 715**	13 142
458	**578**	– Motor vehicles	**585**	445
7 409	**9 376**	– Capital work in progress	**9 398**	7 446
(11 293)	**(11 817)**	**Accumulated depreciation**	**(12 371)**	(11 764)
(25)	**(25)**	– Aircraft	**(536)**	(469)
(1 446)	**(1 707)**	– Land, buildings and structures	**(1 709)**	(1 447)
(2 500)	**(1 953)**	– Machinery, equipment and furniture	**(1 991)**	(2 542)
(2 096)	**(2 315)**	– Permanent way and works	**(2 313)**	(2 096)
(4 836)	**(5 415)**	– Rolling stock and containers	**(5 415)**	(4 836)
(390)	**(402)**	– Motor vehicles	**(407)**	(374)
(562)	**(480)**	**Accumulated impairment**	**(506)**	(576)
(299)	**(121)**	– Land, buildings and structures	**(135)**	(300)
(27)	**(30)**	– Machinery, equipment and furniture	**(41)**	(39)
(54)	**(127)**	– Rolling stock and containers	**(127)**	(54)
–	**–**	– Motor vehicles	**(1)**	(1)
(182)	**(202)**	– Capital work in progress	**(202)**	(182)
30 280	**36 753**	**Net book value of property, plant and equipment stated at historical cost**	**37 315**	30 844
		Revaluation		
28 321	**31 902**	**Gross carrying value**	**31 847**	28 321
9 335	**10 377**	– Pipeline networks	**10 371**	9 335
18 986	**21 525**	– Port facilities	**21 476**	18 986
(13 390)	**(14 737)**	**Accumulated depreciation**	**(14 732)**	(13 390)
(6 094)	**(6 649)**	– Pipeline networks	**(6 648)**	(6 094)
(7 296)	**(8 088)**	– Port facilities	**(8 084)**	(7 296)

COMPANY			GROUP	
2006 Restated R million	**2007 R million**		**2007 R million**	2006 Restated R million
		9. PROPERTY, PLANT AND EQUIPMENT (refer annexure B) (continued)		
(594)	**(604)**	**Accumulated impairment**	**(604)**	(594)
(152)	**(153)**	– Pipeline networks	**(153)**	(152)
(442)	**(451)**	– Port facilities	**(451)**	(442)
14 337	**16 561**	**Net book value of property, plant and equipment stated at revalued amounts**	**16 511**	14 337
44 617	**53 314**	**Total net book value**	**53 826**	45 181
–	**–**	Included in aircraft are capitalised leased assets with a net carrying value of	**9**	4 706
		These capitalised aircrafts are encumbered as security for the repayment of lease commitments (refer note 25 and 31.3).		
		Land, building and structures A register of land, buildings and structures is open for inspection at 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. This loan is secured by virtue of the lease agreements and collateral covering bond over the refurbished locomotives.		
1 045	**1 390**	The book value of the refurbished locomotives which are so encumbered amounts to	**1 390**	1 045
420	**405**	Included in rolling stock assets are capitalised leased assets with a carrying value of	**405**	420
		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 previous year, by Arthur D Little Inc, an independent firm of professional valuers on the basis of the modern equivalent net asset value. The current year's revaluation resulted in a net increase of R662 million (2006: R102 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.		
2 135	**2 032**	The historic carrying values of these assets amount to	**2 032**	2 135

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		9. PROPERTY, PLANT AND EQUIPMENT (refer annexure B) (continued)		
		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 to the port industry. This valuation resulted in a net increase of R1 072 million (2006: R383 million) to the carrying value of the Group' port facilities, which has been adjusted accordingly.		
6 964	**7 614**	The historic carrying values of these assets amount to	**7 614**	6 964
		10. INVESTMENT PROPERTIES		
1 964	**2 337**	Fair value at the beginning of the year	**2 369**	1 997
373	**483**	Increase in fair value during the year	**490**	372
2 337	**2 820**	Fair value at the end of the year	**2 859**	2 369
		The fair value of the Group's investment properties at 31 March 2007 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 gross property rental income earned by the Group from its investment properties, all of which are leased out under gross operating leases, amounted to R387 million (2006: R343 million).		
		Direct operating expenses arising on the investment properties during the year amounted to R 169 million (2006: R150 million).		
		11. INTANGIBLE ASSETS AND GOODWILL		
168	**204**	Intangible assets and goodwill	**207**	172
518	**555**	**Cost**	**637**	614
(350)	**(351)**	Accumulated amortisation and impairment	**(430)**	(442)
		Comprising:		
		Finite life intangible assets		
168	**204**	**Software and licences: carrying value**	**207**	172
518	**555**	**Cost**	**623**	600
456	**518**	Balance at the beginning of the year	**600**	586
65	**6**	Additions	**6**	75
(13)	**(45)**	Disposals	**(49)**	(15)
(4)	**(36)**	Transferred to assets classified as held-for-sale	**(36)**	(54)
8	**102**	Transfers in from property, plant and equipment	**102**	8
6	**10**	Transfers in from subsidiaries	**–**	–
(350)	**(351)**	**Accumulated amortisation and impairment**	**(416)**	(428)
(308)	**(350)**	Balance at the beginning of the year	**(428)**	(431)
13	**44**	Disposals	**48**	15
(51)	**(81)**	Amortisation	**(81)**	(53)
3	**25**	Transferred to assets classified as held-for-sale	**25**	45
(4)	**20**	Transfers in from property, plant and equipment	**20**	(4)
(3)	**(9)**	Transfers in from subsidiaries	**–**	–

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		11.	**INTANGIBLE ASSETS AND GOODWILL (continued)**		
			Indefinite life intangible assets		
–	**–**		**Goodwill: carrying value**	**–**	–
–	**–**		**Cost**	**14**	14
–	**–**		Balance at the beginning and end of the year	**14**	111
–	**–**		Transferred to assets classified as held-for-sale	**–**	(97)
–	**–**		**Accumulated impairment**	**(14)**	(14)
–	**–**		Balance at the beginning of the year	**(14)**	(111)
–	**–**		Transferred to assets classified as held-for-sale	**–**	97
			Software and licences are assessed as having a finite life and are amortised on a straight-line basis over a period of 3 to 5 years.		
		12.	**INVESTMENTS IN SUBSIDIARIES (refer annexure D)**		
2 846	**87**		Shares at cost		
10 279	**1 476**		Net amounts owing by subsidiaries		
13 125	**1 563**				
(10 622)	**(1 189)**		Provision for accumulated impairment and losses		
2 503	**374**				
(2 224)	**–**		Transferred to assets classified as held-for-sale		
279	**374**				
			Loans to subsidiaries that have been subordinated amount to R508 million (2006: R501 million). In addition, the Company has issued letters of support.		
			The financial support available in terms of these letters is as follows:		
421	**336**		– South African Express Airways (Pty) Ltd		
80	**69**		– Autopax Passenger Services (Pty) Ltd		
–	**104**		– Transhold Properties (Pty) Ltd		
–	**85**		– Transwerk Foundries (Pty) Ltd		
1 500	**–**		– South African Airways (Pty) Ltd		
2 001	**594**				
		13.	**INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (refer annexure D)**		
81	**28**			**47**	98
792	**81**		Balance at the beginning of the year	**98**	1 242
–	**4**		Acquisitions	**4**	–
–	**–**		Equity earnings	**4**	285
(6)	**19**		Advances/(repayments) of loans	**19**	(6)
(138)	**2**		Reversal of impairments/(current year impairments)	**–**	(141)
(567)	**(78)**		Transferred to assets classified as held-for-sale (refer annexure C)	**(78)**	(1 282)
125	**47**		Directors' valuation of unlisted investments in associates and joint ventures (continuing operations)	**47**	125
–	**–**		Total income from associates and joint ventures amounted to	**4**	285
–	**–**		Discontinued operations	**2**	252
–	**–**		Continuing operations	**2**	33

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 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.		
304	**513**	**Derivative financial assets**	**5 979**	4 091
691	**304**	Opening balance	**4 091**	4 217
13	**240**	Income statement credit	**1 954**	786
(400)	**(31)**	Derivatives raised and settled	**(66)**	(732)
–	**–**	Transferred to assets classified as held-for-sale	**–**	(180)
510	**405**	Derivative financial liabilities	**405**	561
1 066	**510**	Opening balance	**561**	1 227
(15)	**(26)**	Income statement credit	**(27)**	(77)
(541)	**(79)**	Derivatives raised and settled	**(129)**	(589)
28	**266**	Net income statement credit (refer note 5)	**1 981**	863
		Comprise the following financial instruments:		
216	**321**	**Non-current assets**	**321**	217
38	**166**	Forward exchange contracts	**166**	38
147	**147**	Cross-currency swaps and options	**147**	147
31	**8**	Interest rate swaps and options	**8**	31
–	**–**	Other	**–**	1
88	**192**	**Current assets**	**5 658**	3 874
18	**84**	Forward exchange contracts	**84**	18
49	**58**	Cross-currency swaps and options	**58**	62
21	**16**	Interest rate swaps and options	**16**	21
–	**–**	Jet fuel derivatives	**–**	166
–	**–**	C class preference shares*	**5 500**	3 787
–	**34**	Other	**–**	–
–	**–**	Transferred to assets classified as held-for-sale	**–**	(180)
370	**240**	**Non-current liabilities**	**240**	408
89	**45**	Forward exchange contracts	**45**	127
281	**195**	Cross-currency swaps and options	**195**	281
140	**165**	**Current liabilities**	**165**	153
44	**77**	Forward exchange contracts	**77**	57
96	**88**	Cross-currency swaps and options	**88**	96

* Includes the Group's asset being an investment in "C" class preference shares 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 these preference shares 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 effects of the fair valuation are disclosed in note 5.

COMPANY			GROUP	
2006 Restated R million	2007 R million		2007 R million	2006 Restated R million
		14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)		
		Fair value hedges of firm commitments		
		During the current financial year the Group entered into fair value hedges of the foreign exchange risk on firm commitments of the Group to import items of equipment (ie locomotives and port equipment). The Group is settling the contract price of these items by making pre-determined progress payments (in foreign currency) to the relevant suppliers as specified milestones are achieved.		
		At 31 March 2007, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed as being effective.		
		The fair values of these forward exchange contracts at 31 March 2007 are as follows:		
–	**(36)**	Currency bought forward – Japanese yen	**(36)**	–
–	**49**	Currency bought forward – Euros	**49**	–
		The net fair value gain recognised in the income statement on these fair value hedges during the year was R13 million. This net fair value gain comprised a gain of R214 million on the firm commitments, and a loss of R201 million on the forward exchange contracts.		
		The nominal values of these forward exchange contracts at 31 March 2007 are as follows:		
–	**2 139**	Currency bought forward – Japanese yen	**2 139**	–
–	**501**	Currency bought forward – Euros	**501**	–
–	**2 640**		**2 640**	–
million	**million**		**million**	million
		Currency bought forward		
–	**28 608**	Japanese yen	**28 608**	–
–	**56**	Euros	**56**	–

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		15. LONG-TERM LOANS AND ADVANCES		
2 022	**123**		**123**	2 019
2 720	**2 022**	Balance at the beginning of the year	**2 019**	2 717
134	**772**	Advances	**772**	152
(783)	**(1 297)**	Repayments	**(1 294)**	(803)
108	**(95)**	(Impairment)/reversal of impairment	**(95)**	110
–	**(1 258)**	Transferred to non-current assets classified as held-for-sale	**(1 258)**	–
(157)	**(21)**	*Less:* Short-term portion transferred to trade and other receivables	**(21)**	(157)
		Comprising:		
4	**1**	**Directors' and managers' loans**	**1**	3
5	**4**	Balance at the beginning of the year	**3**	4
2	**–**	Capitalised interest/advances	**–**	2
(3)	**(3)**	Repayments	**(2)**	(3)
2 001	**117**	**Employee housing and other loans**	**117**	2 002
2 636	**2 001**	Balance at the beginning of the year	**2 002**	2 634
118	**772**	Advances	**772**	120
(674)	**(1 251)**	Repayments	**(1 252)**	(674)
74	**(126)**	(Impairment)/reversal of impairment	**(126)**	75
–	**(1 258)**	Transfers to non-current assets classified as held-for-sale	**(1 258)**	–
(153)	**(21)**	*Less:* Short-term portion	**(21)**	(153)
17	**5**	**Other loans and advances**	**5**	14
79	**17**	Balance at the beginning of the year	**14**	79
14	**–**	Advances	**–**	30
(106)	**(43)**	Repayments	**(40)**	(126)
34	**31**	Reversal of impairment	**31**	35
(4)	**–**	*Less:* Short-term portion	**–**	(4)
2 022	**123**		**123**	2 019

Included in Directors' and managers' loans are the following loans to senior executives:

	Opening balance R thousand	Capitalised interest/ advances R thousand	Repaid R thousand	**Total 2007 R thousand**	Total 2006 R thousand
Mr SI Gama	325	34	(41)	**318**	325
Mr CA Möller	369	33	(193)	**209**	369
Mr T Morwe	580	31	(385)*	**226**	580
Mr VD Kahla	304	–	(304)**	**–**	304
	1 578	98	(923)	**753**	1 578

These loans are secured and bear variable interest that is linked to the prime interest rate. The current rates are 11% to 11,5% and relate to housing loans.

Repayment terms vary and are up to a maximum of 20 years.

Housing loans are secured by first mortgage bonds over the related property and other guarantees.

* Included in repaid is R220 000 related to a car loan which has been transferred to an external institution.
** Included in repaid is R304 000 related to a car loan which has been transferred to an external institution.

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		16. OTHER INVESTMENTS AND LONG-TERM FINANCIAL ASSETS		
–	**–**	Listed investments at market value	**131**	59
29	**328**	Other financial assets	**329**	29
–	**–**	Defeasance deposit	**–**	485
29	**328**		**460**	573
–	**–**	Transferred to assets classified as held-for-sale	**–**	(485)
29	**328**	Total long-term investments and long-term financial assets	**460**	88
657	**703**	Short-term portion of other investments including market making positions held-for-trading	**704**	1 650
(15)	**–**	Transferred to assets classified as held-for-sale	**–**	(1 007)
642	**703**	Total short-term investments	**704**	643
		17. INVENTORIES		
		At weighted average cost		
345	**577**	Raw materials	**580**	348
124	**481**	Maintenance material	**521**	832
60	**85**	Consumables	**86**	61
97	**160**	Finished goods	**164**	97
69	**169**	Work in progress*	**169**	88
(4)	**(272)**	Provision for stock obsolescence	**(272)**	(335)
691	**1 200**		**1 248**	1 091
		At net realisable value		
84	**–**	Raw materials	**–**	84
592	**522**	Maintenance material	**522**	592
113	**25**	Consumables	**25**	237
29	**59**	Finished goods	**59**	49
(159)	**(55)**	Provision for stock obsolescence	**(55)**	(188)
659	**551**		**551**	774
(2)	**(1)**	Transferred to assets classified as held-for-sale	**(1)**	(469)
1 348	**1 750**		**1 798**	1 396
		* Included in work in progress are costs for construction contracts in progress (refer note 28)		
		18. TRADE AND OTHER RECEIVABLES		
2 933	**2 953**	Trade receivables**	**3 170**	4 824
926	**759**	Prepayments and other amounts receivable	**818**	2 208
157	**180**	Short-term portion of loans and advances	**180**	157
(121)	**(176)**	Transferred to assets classified as held-for-sale	**(176)**	(3 040)
3 895	**3 716**		**3 992**	4 149

** Included in trade receivables are amounts due from customers in respect of construction contracts (refer note 28).

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		19. CASH AND CASH EQUIVALENTS		
1 114	**3 142***	Cash and cash equivalents	**3 347***	1 732
–	**–**	Transferred to assets classified as held-for-sale	**–**	(332)
1 114	**3 142**		**3 347**	1 400
(32)	**(25)**	Bank overdrafts	**(26)**	(41)
–	**–**	Transferred to assets classified as held-for-sale	**–**	7
(32)	**(25)**		**(26)**	(34)
		* Included in Group cash and cash equivalents and short-term borrowings is cash of R1,7 billion held on behalf of South African Airways (Pty) Ltd, which is not available for use by the Group.		
		20. ASSETS CLASSIFIED AS HELD-FOR-SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD-FOR-SALE (refer annexure C)		
		Non-current assets classified as held-for-sale		
160	**452**	Property, plant and equipment	**452**	160
–	**11**	Intangible assets and goodwill	**10**	–
2 224	**461**	Investments in subsidiaries	**–**	–
567	**84**	Investments in associates and joint ventures	**101**	1 282
–	**1 258**	Loans and advances	**1 258**	–
15	**–**	Other investments	**–**	15
–	**1**	Inventories	**1**	–
–	**176**	Trade and other receivables	**176**	–
2 966	**2 443**		**1 998**	1 457
		Effect of the sale of disposal groups		
		Assets classified as held-for-sale		
–	**–**	Autopax Passenger Services (Pty) Ltd	**75**	103
371	**341**	freightdynamics	**341**	371
–	**–**	Freight Dynamics Guard Risk	**21**	17
–	**–**	South African Airways (Pty) Ltd	**–**	13 673
–	**–**	Viamax (Pty) Ltd	**1 328**	1 192
(1)	**37**	Effect of intercompany eliminations and other adjustments	**149**	(73)
370	**378**		**1 914**	15 283
3 336	**2 821**	Total assets transferred to non-current assets classified as held-for-sale	**3 912**	16 740
		Liabilities directly associated with assets classified as held-for-sale		
–	**(68)**	Trade and other payables	**(68)**	–
–	**(17)**	Provisions	**(17)**	–
–	**(85)**		**(85)**	–
		Effect of the sale of disposal groups		
–	**–**	Autopax Passenger Services (Pty) Ltd	**(124)**	(119)
(556)	**(626)**	freightdynamics	**(626)**	(556)
–	**–**	Freight Dynamics Guard Risk	**(8)**	(6)
–	**–**	South African Airways (Pty) Ltd	**–**	(14 888)
–	**–**	Viamax (Pty) Ltd	**(591)**	(599)
464	**498**	Effect of intercompany eliminations and other adjustments	**1 004**	3 236
(92)	**(128)**		**(345)**	(12 932)
(92)	**(213)**	Total liabilities transferred to liabilities directly associated with assets classified as held-for-sale	**(430)**	(12 932)

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		21.	**ISSUED CAPITAL**		
			Authorised		
30 000	**30 000**		30 000 000 000 ordinary par value shares of R1 each	**30 000**	30 000
			Issued		
14 710	**12 661**		12 660 986 310 ordinary par value shares of R1 each (2006: 14 709 986 310)	**12 661**	14 710
			During the year, the Company repurchased a total of 2 049 000 000 of its issued shares at par value of R1 each as part of the sale of South African Airways (Pty) Ltd.		
			The unissued share capital is under the control of the South African Government, the sole shareholder of the Company.		
		22.	**RESERVES**		
5 702	**7 163**		**Revaluation reserves**	**7 257**	5 873
5 047	**6 010**		Revaluation of port facilities	**6 010**	5 047
4 671	**5 047**		Balance at the beginning of the year	**5 047**	4 671
383	**1 072**		Revaluation during the current year	**1 072**	383
(7)	**(109)**		Realised through disposal	**(109)**	(7)
1 318	**1 976**		Revaluation of pipeline networks	**1 976**	1 318
1 216	**1 318**		Balance at the beginning of the year	**1 318**	1 216
102	**662**		Revaluation during the current year	**662**	102
–	**(4)**		Realised through disposal	**(4)**	–
–	**–**		MTN Group Ltd – revaluation of investment to market value	**–**	–
245	**–**		Balance at the beginning of the year	**–**	245
149	**–**		Revaluation during the current year	**–**	149
(394)	**–**		Release of the surplus on the MTN shares to the income statement	**–**	(394)
–	**–**		ALL Group Ltd – revaluation of investment to market value	**124**	52
–	**–**		Balance at the beginning of the year	**52**	18
–	**–**		Revaluation during the current year	**72**	34
–	**–**		V&A Waterfront Holdings (Pty) Ltd – fair value adjustment	**–**	119
–	**–**		Balance at the beginning of the year	**119**	119
–	**–**		Realised through disposal	**(119)**	–
(663)	**(823)**		Deferred taxation impact of items relating to revaluation reserves	**(853)**	(663)
–	**–**		**Foreign currency translation reserve**	**(8)**	28
1	**–**		Balance at the beginning of the year	**28**	(8)
(1)	**–**		Arising during the current year	**(36)**	36

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		22. RESERVES (continued)		
2 073	**3 285**	**Net actuarial gains on post-retirement benefit obligations**	**3 282**	2 070
2 918	**4 625**	Actuarial gains on post-retirement benefit obligations	**4 622**	2 915
416	**2 918**	Balance at the beginning of the year	**2 915**	416
2 502	**1 707**	Current year movement	**1 725**	2 499
–	**–**	Realised through disposal	**(18)**	–
(845)	**(1 340)**	Deferred taxation impact of net actuarial gains	**(1 340)**	(845)
1 092	**250**	**Other reserves**	**249**	1 106
8	**5**	Other transfers	**4**	8
839	**–**	Profit on sale of interest in South African Airways (Pty) Ltd	**–**	853
245	**245**	Share of pension fund surplus (retained for application against pensioners)	**245**	245
3 681	**9 817**	**Accumulated profit**	**13 870**	5 626
(831)	**3 681**	Balance at the beginning of the year	**5 626**	200
(4)	**–**	IFRIC 4 adjustments	**–**	(4)
457	**–**	Investment properties adjustments	**–**	457
–	**839**	Transfers to accumulated profit on sale of interest in South African Airways (Pty) Ltd	**853**	–
30	**3**	Other transfers to accumulated profit	**4**	75
4 029	**5 294**	Profit for the year attributable to equity holder	**7 387**	4 898
12 548	**20 515**		**24 650**	14 703

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								
Restated balances at 1 April 2005	14 710	5 675	(8)	296	1 179	653	88	**22 593**
Opening balance as previously reported	14 710	4 641	(8)	296	1 179	200	88	**21 106**
IFRIC 4 adjustments	–	–	–	–	–	(4)	–	**(4)**
Deferred taxation adjustments	–	1 034	–	–	–	–	–	**1 034**
Investment properties adjustments	–	–	–	–	–	457	–	**457**
Total recognised income and expense	–	267	36	2 499	2	4 898	32	**7 734**
Opening balance as previously reported	–	267	36	2 499	2	4 539	32	**7 375**
IFRIC 4 adjustments	–	–	–	–	–	20	–	**20**
Investment properties adjustments	–	–	–	–	–	339	–	**339**
Taxation effect of items recorded in equity	–	(69)	–	(725)	–	–	–	**(794)**
Opening balance as previously reported	–	(43)	–	(725)	–	–	–	**(768)**
Deferred taxation adjustments	–	(26)	–	–	–	–	–	**(26)**
Dividends paid	–	–	–	–	–	–	(7)	**(7)**
Transferred to accumulated profit	–	–	–	–	(75)	75	–	**–**

	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
22. RESERVES (continued)								
GROUP (continued)								
Restated balances at 31 March 2006	14 710	5 873	28	2 070	1 106	5 626	113	**29 526**
Shares redeemed	(2 049)	–	–	–	–	–	–	**(2 049)**
Total recognised income and expense	–	1 574	(36)	1 707	–	7 387	17	**10 649**
Taxation effect of items recorded in equity	–	(190)	–	(495)	–	–	–	**(685)**
Dividends paid	–	–	–	–	–	–	(8)	**(8)**
Transferred to accumulated profit	–	–	–	–	(857)	857	–	**–**
Balances at 31 March 2007	**12 661**	**7 257**	**(8)**	**3 282**	**249**	**13 870**	**122**	**37 433**
COMPANY								
Restated balances at 1 April 2005	14 710	5 538	1	296	1 122	(378)	–	**21 289**
Opening balance as previously reported	14 710	4 504	1	296	1 122	(831)	–	**19 802**
IFRIC 4 adjustments	–	–	–	–	–	(4)	–	**(4)**
Deferred taxation adjustments	–	1 034	–	–	–	–	–	**1 034**
Investment properties adjustments	–	–	–	–	–	457	–	**457**
Total recognised income and expense	–	233	(1)	2 502	–	4 029	–	**6 763**
Opening balance as previously reported	–	233	(1)	2 502	–	3 670	–	**6 404**
IFRIC 4 adjustments	–	–	–	–	–	20	–	**20**
Investment properties adjustments	–	–	–	–	–	339	–	**339**
Taxation effect of items recorded in equity	–	(69)	–	(725)	–	–	–	**(794)**
Opening balance as previously reported	–	(43)	–	(725)	–	–	–	**(768)**
Deferred taxation adjustments	–	(26)	–	–	–	–	–	**(26)**
Transferred to accumulated profit	–	–	–	–	(30)	30	–	**–**
Restated balances at 31 March 2006	14 710	5 702	–	2 073	1 092	3 681		**27 258**
Shares redeemed	(2 049)	–	–	–	–	–	–	**(2 049)**
Total recognised income and expense	–	1 621	–	1 707	–	5 294	–	**8 622**
Taxation effect of items recorded in equity	–	(160)	–	(495)	–	–	–	**(655)**
Transferred to accumulated profit	–	–	–	–	(842)	842	–	**–**
Balances at 31 March 2007	**12 661**	**7 163**	**–**	**3 285**	**250**	**9 817**	**–**	**33 176**

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		23.	**MINORITY INTERESTS**		
			Balance at the beginning of the year	**113**	88
			Total recognised income attributable to minorities	**17**	32
			Dividends paid to minorities	**(8)**	(7)
			Total minority interests directly associated with assets and liabilities classified as held-for-sale	**122**	113
		24.	**POST-RETIREMENT BENEFIT OBLIGATIONS**		
4 348	**2 422**			**2 422**	4 348
7 113	**4 348**		Balance at the beginning of the year	**4 348**	7 238
99	**202**		Current year provision	**218**	72
11	**–**		Acquisition of Protekon business	**–**	–
(362)	**(421)**		Settlements during the year	**(419)**	(362)
(2 502)	**(1 707)**		Actuarial gains	**(1 725)**	(2 499)
(11)	**–**		Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(101)
			Comprising:		
–	**–**		Transnet Pension Fund (refer note 33.1.2)	**–**	–
1 628	**–**		Transnet Second Defined Benefit Fund (refer note 33.1.3)	**–**	1 628
116	**113**		Top Management Pensions (refer note 33.1.4)	**113**	116
247	**238**		Workmen's Compensation Act pensioners (refer note 33.1.4)	**238**	247
(1)	**(4)**		Black Widows' Pensions (refer note 33.1.5)	**(4)**	(1)
–	**–**		Flight Deck Crew Pension Fund (refer annexure C, note k.(i))	**–**	5
–	**–**		Flight Deck Crew Disability Benefit Fund (refer annexure C, note k.(iv))	**–**	35
1 607	**1 369**		SATS pensioners' post-retirement medical benefits (refer note 33.2.1)	**1 369**	1 607
762	**706**		Transnet employees post-retirement medical benefits (refer note 33.2.2)	**706**	812
(11)	**–**		Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(101)
4 348	**2 422**			**2 422**	4 348

COMPANY			GROUP	
2006 Restated R million	2007 R million		2007 R million	2006 Restated R million
		25. LONG-TERM BORROWINGS (refer annexure A)		
15 940	**17 241**		**17 535**	16 534
18 234	**16 089**	Total long-term borrowings at the beginning of the year	**19 352**	27 297
477	**1 041**	Raised	**1 222**	858
(2 840)	**(149)**	Repaid	**(997)**	(4 778)
(1)	**27**	Foreign exchange movement	**27**	5
219	**303**	Discount on bonds amortised	**303**	219
16 089	**17 311**		**19 907**	23 601
(149)	**(70)**	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 30)	**(2 372)**	(2 818)
–	**–**	Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(4 249)
		Comprising:		
		Unsecured liabilities		
14 553	**14 853**	**Rand denominated**	**14 853**	14 553
15 486	**15 486**	Bonds at nominal value	**15 486**	15 486
(941)	**(638)**	Unamortised discounts	**(638)**	(941)
14 545	**14 848**	Bonds at carrying value	**14 848**	14 545
8	**5**	Other unsecured liabilities	**5**	8
57	**44**	**Unsecured foreign currency denominated**	**44**	61
1 479	**2 414**	**Secured loans and capitalised leases**	**2 800**	2 707
1 289	**2 242**	Rand denominated	**2 623**	4 769
190	**172**	Foreign currency denominated	**177**	2 187
–	**–**	Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(4 249)
–	**–**	**Rand denominated promissory notes**	**2 210**	2 031
16 089	**17 311**	Total long-term borrowings	**19 907**	19 352
(149)	**(70)**	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 30)	**(2 372)**	(2 818)
15 940	**17 241**		**17 535**	16 534

The rand denominated unsecured local bonds are redeemable between 1 April 2008 and 15 July 2014 and bear interest at rates ranging 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. These loans bear interest at 3% and are repayable in March 2009.

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 carry a weighted average cost of debt ranging between 8,5% 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 United States dollars and bear interest between 6,17% and 6,27% and are repayable in November 2008 and November 2010.

Foreign currency denominated capitalised finance lease liabilities bear interest between 2% and 6% and are repayable between 2007 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 2007 and 2008.

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		26. PROVISIONS		
830	**925**	Comprising	**928**	847
2 163	**2 494**	Total provisions at the beginning of the year	**2 546**	2 794
1 814	**2 820**	Provisions made during the year and unwinding of discounts	**2 822**	2 227
(1 466)	**(2 005)**	Provisions released/utilised	**(2 047)**	(1 982)
(1 664)	**(2 367)**	Short-term provisions classified as current liabilities	**(2 376)**	(1 699)
(17)	**(17)**	Transferred to liabilities directly associated with assets classified as held-for-sale	**(17)**	(493)
109	**96**	**Third party claims**	**96**	109
96	**109**	Balance at the beginning of the year	**109**	97
196	**142**	Provisions made during the year	**142**	196
(183)	**(155)**	Provisions released/utilised	**(155)**	(184)
36	**60**	**Customer claims**	**60**	36
82	**36**	Balance at the beginning of the year	**36**	87
13	**31**	Provisions made during the year	**31**	12
(59)	**(7)**	Utilised during the year	**(7)**	(63)
921	**1 024**	**Leave pay**	**1 030**	928
895	**921**	Balance at the beginning of the year	**928**	1 256
708	**748**	Provisions made during the year	**748**	977
(666)	**(630)**	Utilised during the year	**(631)**	(913)
(16)	**(15)**	Transferred to liabilities directly associated with assets classified as held-for-sale	**(15)**	(392)
35	**43**	**Onerous contracts**	**43**	37
83	**35**	Balance at the beginning of the year	**37**	125
(14)	**8**	Provisions made during the year	**6**	(14)
(34)	**–**	Utilised during the year	**–**	(74)
252	**297**	**Decommissioning liability**	**297**	252
227	**252**	Balance at the beginning of the year	**252**	227
29	**61**	Provisions made during the year and unwinding of discounts	**61**	30
(4)	**(16)**	Utilised during the year	**(16)**	(5)
615	**1 232**	**Incentive bonuses**	**1 232**	643
274	**615**	Balance at the beginning of the year	**643**	302
753	**1 183**	Provisions made during the year	**1 182**	787
(412)	**(566)**	Utilised during the year	**(593)**	(440)
–	**–**	Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(6)
462	**237**	**Restructuring**	**237**	471
492	**462**	Balance at the beginning of the year	**471**	504
64	**90**	Provisions made during the year	**81**	68
(94)	**(315)**	Utilised during the year	**(315)**	(101)

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		26.	**PROVISIONS (continued)**		
64	**303**		**Other**	**309**	70
14	**64**		Balance at the beginning of the year	**70**	196
65	**557**		Provisions made during the year	**571**	171
(14)	**(316)**		Utilised during the year	**(330)**	(202)
(1)	**(2)**		Transferred to liabilities directly associated with assets classified as held-for-sale	**(2)**	(95)
2 494	**3 292**		Total provisions	**3 304**	2 546
1 664	**2 367**		***Less:* Short-term provisions classified as current liabilities**	**2 376**	1 699
109	**96**		Third party claims	**96**	109
6	**34**		Customer claims	**34**	6
407	**545**		Leave pay	**548**	601
10	**20**		Onerous contracts	**20**	10
–	**41**		Decommissioning liability	**41**	–
615	**1 102**		Incentive bonuses	**1 102**	649
459	**235**		Restructuring	**235**	459
65	**303**		Other	**309**	157
(7)	**(9)**		Transferred to liabilities directly associated with assets classified as held-for-sale	**(9)**	(292)
830	**925**		Total long-term provisions	**928**	847

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.

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.

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			GROUP	
2006 Restated R million	**2007 R million**		**2007 R million**	2006 Restated R million
		27. DEFERRED TAXATION LIABILITIES		
50	**1 670**	Comprising	**1 707**	52
–	**50**	Balance at the beginning of the year	**52**	58
(962)	**–**	Opening balance restatements	**–**	(962)
218	**965**	Income statement charge (refer note 8)	**970**	229
794	**655**	Raised in reserves	**685**	794
50	**1 670**	Total deferred taxation liability	**1 707**	119
–	**–**	Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(67)
		Analysis of major categories of temporary differences		
4 486	**2 859**	**Deferred taxation assets**	**3 070**	8 861
860	**1 036**	Provisions	**1 074**	1 450
–	**–**	Estimated taxation loss	**148**	3 590
1 261	**702**	Post-retirement benefit obligations	**702**	1 261
–	**–**	Forward sales liability	**–**	491
21	**7**	Income received in advance	**18**	463
778	**1 031**	Capitalised lease liability	**1 031**	778
1 402	**–**	Impairment of investments**	**–**	–
122	**83**	Derivatives	**93**	136
–	**–**	Maintenance reserve payments	**–**	254
42	**–**	Other	**4**	438
3 134	**4 529**	**Deferred taxation liabilities**	**4 843**	5 571
46	**10**	Deferred expenditure	**14**	66
3 009	**4 409**	Property, plant and equipment	**4 713**	5 406
16	**16**	Future expenditure allowance	**25**	36
15	**–**	Undrawn funds	**–**	15
48	**35**	Doubtful debts	**35**	–
–	**59**	Other	**56**	48
1 352	**(1 670)**	Net deferred taxation (liability)/asset	**(1 773)**	3 290
(1 402)	**–**	Deferred taxation assets not raised*	**(29)**	(3 409)
–	**–**	Transferred to liabilities directly associated with assets classified as held-for-sale	**95**	67
(50)	**(1 670)**	Total deferred taxation liability	**(1 707)**	(52)
–	**–**	Estimated taxation losses available for off-set against future taxable income (refer note 8)	**552**	12 380

* The subsidiaries have not raised deferred taxation assets in the current year. The probability of there being sufficient taxable profit against which the deferred taxation 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 South African Airways (Pty) Ltd 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 asset arising on the sale of South Africa Airways (Pty) Ltd has not been recognised.

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		28. CONSTRUCTION CONTRACTS		
		Contracts in progress at the balance sheet date:		
44	**122**	Construction costs incurred plus recognised profits less losses to date	**122**	44
(10)	**(7)**	*Less:* Probable losses due to onerous contract*	**(7)**	(10)
34	**115**		**115**	34
		Recognised and included in the financial statements:		
		Income statement		
188	**538**	Contract revenue	**538**	188
		Balance sheet		
162	**199**	Amounts due from customers under construction contracts	**199**	162
12	**1**	Advances received	**1**	12
9	**20**	Retention debtors	**20**	9
11	**13**	Retention creditors	**13**	11
		Contract revenue for coaches is recognised when the completed stage has been signed off as proof of quality satisfaction by the external debtor.		
		29. TRADE PAYABLES AND ACCRUALS**		
776	**1 277**	**Trade payables**	**1 259**	1 323
4 265	**4 500**	**Accruals**	**4 684**	11 304
–	**–**	Forward sales liability***	**–**	2 139
2 005	**2 011**	Accrued expenditure	**2 119**	6 398
34	**40**	Deposits received	**41**	65
28	**22**	Deferred income	**56**	63
–	**–**	Frequent flyer rewards programme	**–**	161
829	**922**	Interest	**922**	888
26	**610**	Personnel costs	**614**	67
803	**525**	Public creditors	**528**	828
161	**50**	Revenue received in advance	**50**	163
379	**320**	SARS – value added taxation	**354**	532
(64)	**(68)**	Transferred to liabilities directly associated with assets classified as held-for-sale	**(68)**	(7 420)
4 977	**5 709**		**5 875**	5 207

* Relates to the contract for the upgrade and general overhaul of Class 9E electric locomotives between Alstom and Transwerk.
** Included in trade payables and accruals are amounts due to customers in respect of construction contracts (refer note 28).
*** This balance represents the unrealised income from tickets sold but not yet flown. The above balance includes the value of coupons sold by South African Airways (Pty) Ltd, 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				GROUP	
2006 Restated R million	2007 R million			2007 R million	2006 Restated R million
		30.	**SHORT-TERM BORROWINGS (refer annexure A)**		
149	**70**		Current portion of long-term interest-bearing borrowings (refer note 25)	**2 372**	2 818
3 063	**5 131***		Other short-term borrowings	**5 243***	3 063
–	**–**		Transferred to liabilities directly associated with assets classified as held-for-sale	**–**	(558)
3 212	**5 201**			**7 615**	5 323
			Other short-term borrowings relate to the market making portfolio and comprises the Group's position on bonds and other financial instruments.		
			* Included in other short-term borrowings and cash and cash equivalents is cash of R1,7 billion held on behalf of South African Airways (Pty) Ltd, which is not available for use by the Group.		
		31.	**COMMITMENTS**		
		31.1	**Capital commitments**		
154	**489**		Contracted for in US dollars	**489**	160
1 150	**909**		Contracted for in Japanese yen	**909**	1 150
988	**1 545**		Contracted for in euros	**1 545**	1 007
17 211	**20 086**		Contracted for in SA rands	**20 086**	17 722
27	**7**		Contracted for in various other currencies	**7**	27
19 530	**23 036**		Total capital commitments contracted for	**23 036**	20 066
45 711	**55 153**		Authorised by the Directors but not yet contracted for	**55 950**	48 352
65 241	**78 189**			**78 986**	68 418
(177)	**(205)**		Commitments directly associated with assets classified as held-for-sale	**(804)**	(2 787)
65 064	**77 984**			**78 182**	65 631
			Total capital commitments are expected to be incurred as follows:		
11 717	**17 109**		Within one year	**17 906**	12 929
53 524	**61 080**		After one year, but not more than five years	**61 080**	55 489
65 241	**78 189**			**78 986**	68 418
(177)	**(205)**		Commitments directly associated with assets classified as held-for-sale	**(804)**	(2 787)
65 064	**77 984**			**78 182**	65 631
			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.		
		31.2	**Operating lease commitments**		
			Future minimum rentals under non-cancellable leases are as follows:		
			Aircraft		
–	**1**		Within one year	**33**	2 057
–	**–**		After one year, but not more than five years	**182**	7 482
–	**–**		More than five years	**50**	4 269
–	**1**			**265**	13 808
–	**–**		Commitments directly associated with assets classified as held-for-sale	**–**	(13 726)
–	**1**			**265**	82
			Land, buildings and structures		
111	**45**		Within one year	**56**	121
194	**133**		After one year, but not more than five years	**168**	221
336	**291**		More than five years	**323**	358
641	**469**			**547**	700
(9)	**(11)**		Commitments directly associated with assets classified as held-for-sale	**(28)**	(24)
632	**458**			**519**	676

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		31.	**COMMITMENTS (continued)**		
		31.2	**Operating lease commitments (continued)**		
			Machinery, equipment, furniture and motor vehicles		
282	**229**		Within one year	**256**	287
540	**201**		After one year, but not more than five years	**232**	556
34	**–**		More than five years	**–**	34
856	**430**			**488**	877
(16)	**(24)**		Commitments directly associated with assets classified as held-for-sale	**(82)**	(17)
840	**406**			**406**	860
			Security and maintenance contracts		
25	**11**		Within one year	**11**	26
27	**2**		After one year, but not more than five years	**2**	28
28	**–**		More than five years	**–**	29
80	**13**			**13**	83
			Other		
15	**11**		Within one year	**11**	38
7	**16**		After one year, but not more than five years	**16**	22
–	**2**		More than five years	**2**	–
22	**29**			**29**	60
–	**–**		Commitments directly associated with assets classified as held-for-sale	**–**	(38)
22	**29**			**29**	22
		31.3	**Finance lease commitments**		
			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		
23	**27**		Within one year	**195**	141
10	**60**		After one year, but not more than five years	**257**	434
–	**177**		More than five years	**177**	–
33	**264**		Total minimum lease payments	**629**	575
(4)	**(30)**		Amount representing finance charges	**(64)**	(34)
29	**234**		Present value of minimum lease payments	**565**	541
		31.4	**Lease rentals receivable**		
			Future minimum rentals under operating leases are as follows:		
			Property		
99	**575**		Within one year	**581**	105
249	**2 786**		After one year, but not more than five years	**2 826**	257
234	**4 478**		More than five years	**4 489**	244
582	**7 839**			**7 896**	606
			Other		
46	**65**		Within one year	**89**	46
73	**436**		After one year, but not more than five years	**436**	73
11	**810**		More than five years	**810**	11
130	**1 311**			**1 335**	130

COMPANY			GROUP	
2006 Restated R million	**2007** R million		**2007** R million	2006 Restated R million
		32. CONTINGENT LIABILITIES AND GUARANTEES		
		Continuing operations		
1 671	–	**Rolling stock** 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
68	–	**Other** Various contingent liabilities estimated where no material losses are expected to materialise.	–	118
		Discontinued operations		
–	–	**Sun Air (Pty) Ltd** The liquidators of Sun Air (Pty) Ltd and a previous shareholder instituted legal proceeding 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
–	–	**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
		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
547	–	Various guarantees issued in the normal course of business	–	4 016

33. POST-RETIREMENT BENEFIT OBLIGATIONS

The Group offers pension benefits through various 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 benefits and post-retirement medical benefits:

	GROUP	
	2007 **R million**	2006 Restated R million

33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

33.1 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 IAS 19 *Employee Benefits* actuarial valuations for the funds are performed annually. The Transnet Pension Funds are governed by the Transnet Pension Fund Act, 62 of 1990.

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.

33.1.1 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 63 165 members at 31 March 2007 (2006: 63 967). 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 member's credit account then. The total contributions to this fund constitute member contributions of R577 million (2006: R548 million) and Employer contributions of R578 million (2006: R862 million).

33.1.2 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 11 420 members and pensioners (including South African Airways (Pty) Ltd and Metrorail members and pensioners) at 31 March 2007 (2006: 12 267). An actuarial valuation was done as at 31 March 2007 based on the projected unit credit method. The principal actuarial assumptions used were as follows:

	2007	2006
Discount rate (%)	**7,75**	7,50
Salary increases		
– Inflation (%)	**4,50**	4,00
– Promotional (%)	**1,50**	1,50
Expected return on plan assets (%)	**10,15**	10,00
Pension increases (%)	**2,00**	2,00

The results of the actuarial valuation are as follows:

	2007	2006
Benefit liability		
Present value of obligation	**(4 456)**	(5 405)
Fair value of plan assets	**5 610**	5 568
Surplus	**1 154**	163
Unrecognised asset	**(1 154)**	(163)
Net liability per the balance sheet	**–**	–

The liability recognised for this fund relating to the Company amounts to R Nil. (2006: R Nil). The surplus was not recognised as the rules of the fund do not provide for surpluses to be distributed.

	2007	2006
Credit/(charge) to the income statement		
Expected return on assets	**645**	525
Current service cost	**(166)**	(151)
Interest cost	**(460)**	(419)
	19	(45)

		GROUP	
		2007 **R million**	2006 Restated R million
33.	**POST-RETIREMENT BENEFIT OBLIGATIONS (continued)**		
33.1.2	**Transnet Pension Fund (continued)**		
	The credit to the income statement relating to the Company amounts to R20 million (2006: R15 million charge).		
	Actual return on plan assets	**1 844**	1 654
	Actuarial (loss)/gain recognised in statement of recognised income and expense	**(167)**	22
	– Actuarial gains	**1 179**	209
	– Net asset not recognised	**(991)**	(163)
	– Disposal of businesses	**(355)**	(24)
	The actuarial (loss)/gain recognised in the statement of recognised income and expenditure relating to the Company amounts to R157 million loss (2006: R22 million gain).		
	The cumulative actuarial losses recognised in equity	**(511)**	(344)
	Disposal of businesses	**2**	–
		(509)	(344)
	Movements in the net asset/(liability) recognised in the balance sheet		
	Opening net asset/(liability)	**163**	(132)
	Income/(expense) as above	**19**	(45)
	Actuarial gains recognised in equity	**1 179**	209
	Disposal of businesses	**(355)**	(24)
	Contributions paid	**148**	155
	Surplus	**1 154**	163
	Asset not recognised	**(1 154)**	(163)
	Closing net liability	**–**	–
	Reconciliation of movement in benefit liability		
	Opening benefit liability	**(5 405)**	(4 950)
	Current service cost	**(166)**	(151)
	Interest cost	**(460)**	(419)
	Actuarial loss recognised in equity	**(20)**	(920)
	Benefits paid	**225**	237
		(5 826)	(6 203)
	Disposal of businesses	**1 370**	798
	Closing benefit liability	**(4 456)**	(5 405)
	Reconciliation of movement in fair value of plan assets		
	Opening fair value of plan assets	**5 568**	4 818
	Expected return	**645**	525
	Actuarial gains	**1 199**	1 129
	Contributions by employer	**86**	87
	Contributions by members	**62**	68
	Benefits paid	**(225)**	(237)
		7 335	6 390
	Disposal of businesses	**(1 725)**	(822)
	Closing fair value of plan assets	**5 610**	5 568

Summary of actuarial valuation results for past periods	**2007** **R million**	2006 R million	2005 R million	2004 R million	2003 R million
Present value of defined benefit obligation	**(4 456)**	(5 405)	(4 950)	(4 199)	(4 111)
Fair value of plan assets	**5 610**	5 568	4 818	4 034	3 120
Surplus/(deficit)	**1 154**	163	(132)	(165)	(991)
Asset not recognised	**(1 154)**	(163)	–	–	–
Net liability	**–**	–	(132)	(165)	(991)

The estimated contributions (based on current year contributions) by both employer and members for the year beginning 1 April 2007 amount to R148 million (2006: R155 million).

	GROUP	
	2007 **R million**	2006 Restated R million
33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
33.1.2 Transnet Pension Fund (continued)		
The major categories of plan assets as a % of total plan assets are:		
Equity (%)	**65**	71
Property (%)	**10**	6
Bonds (%)	**20**	15
Cash (%)	**5**	8
Total (%)	**100**	100
33.1.3 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 39 533 members at 31 March 2007 (2006: 42 629). This excludes widows and children of pensioners. The all inclusive membership is 81 263 at 31 March 2007 (2006: 84 705). The entire obligation relates to Transnet Ltd.		
The actuarial valuation was based on the projected unit method. The principal actuarial assumptions used are as follows:		
Discount rate (%)	**7,30 – 8,91**	6,52 – 7,52
Expected return on assets (%)	**7,07 – 11,12**	10,60
Pension increases (%)	**2,00**	2,00
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligation	**(19 548)**	(20 887)
Fair value of plan assets	**21 477**	19 259
Surplus/(deficit)	**1 929**	(1 628)
Unrecognised asset	**(1 929)**	–
Net liability per the balance sheet	**–**	(1 628)
(Charge)/credit to the income statement		
Interest cost	**(1 496)**	(1 548)
Expected return on plan assets	**1 478**	1 591
	(18)	43
Actual return on plan assets	**4 490**	5 490
Actuarial gain recognised in statement of recognised income and expense	**1 646**	2 644
– Actuarial gains	**3 575**	2 644
– Net asset not recognised	**(1 929)**	–
The cumulative actuarial gains recognised in equity	**5 372**	3 726

	GROUP 2007 R million	GROUP 2006 Restated R million
33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
33.1.3 Transnet Second Defined Benefit Fund (continued)		
Movements in the net liability recognised in the balance sheet		
Opening net liability	**(1 628)**	(4 315)
(Expense)/income as above	**(18)**	43
Actuarial gain recognised in equity	**3 575**	2 644
Surplus/(deficit)	**1 929**	(1 628)
Asset not recognised	**(1 929)**	–
Net liability per balance sheet	**–**	(1 628)
In the current year, the surplus was not recognised as the rules of the fund do not provide for surpluses to be distributed.		
Reconciliation of movement in benefit liability		
Opening benefit liability	**(20 887)**	(20 405)
Interest cost	**(1 496)**	(1 548)
Actuarial gain/(loss)	**563**	(1 255)
Benefits paid	**2 272**	2 321
Closing benefit liability	**(19 548)**	(20 887)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**19 259**	16 090
Expected return	**1 478**	1 591
Actuarial gain	**3 012**	3 899
Benefits paid	**(2 272)**	(2 321)
Closing fair value of plan assets	**21 477**	19 259
The major categories of plan assets as a % of total plan assets are:		
Equity (%)	**35**	34
Property (%)	**1**	12
Bonds (%)	**57**	12
Cash and net current assets (%)	**7**	42
Total assets at market value (%)	**100**	100

Summary of actuarial valuation results for past periods

	2007 R million	2006 R million	2005 R million	2004 R million	2003 R million
Present value of defined benefit obligation	**(19 548)**	(20 887)	(20 405)	(18 463)	(18 521)
Fair value of plan assets	**21 477**	19 259	16 090	15 024	13 239
Surplus/(deficit)	**1 929**	(1 628)	(4 315)	(3 439)	(5 282)

	GROUP	
	2007	2006 Restated
	R million	R million
33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
33.1.4 Top Management Pensions and Workmen's Compensation Act pensioners		
The Top Management Pensions are additional benefits to top up pensions received to eliminate the effects of any early retirement and resignation penalties applied under the Group's existing pension fund schemes to management appointed prior to 1 April 1999. There were 530 members at 31 March 2007 (2006: 530). The entire obligation relates to Transnet Ltd.		
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 2007 (2006: 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.		
Top Management Pension Fund		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	**7,75**	7,50
Salary increases		
Inflation (%)	**4,75**	4,50
Promotional (%)	**1,50**	1,50
Pension increase (%)	**2,00**	2,00
Benefit liability		
Present value of obligations	**(113)**	(116)
Liability recognised in the balance sheet	**(113)**	(116)
Charge to the income statement		
Interest cost	**(10)**	(8)
Current service cost	**(1)**	(1)
	(11)	(9)
Actuarial gain/(loss) recognised in the statement of recognised income and expense	**4**	(17)
The cumulative actuarial gains recognised in equity	**5**	1
Reconciliation of movement in benefit liability		
Opening benefit liability	**(116)**	(99)
Expense as above	**(11)**	(9)
Actuarial gain/(loss)	**4**	(17)
Contributions paid	**10**	9
Benefit liability at year-end	**(113)**	(116)

Summary of actuarial valuation results for past periods

	2007 R million	2006 R million	2005 R million	2004 R million	2003 R million
Present value of defined benefit obligation	**(113)**	(116)	(99)	(99)	(123)
Deficit	**(113)**	(116)	(99)	(99)	(123)

The estimated contribution (based on current year contribution) for the year beginning 1 April 2007 is R9 million (2006: R9 million).

	GROUP	
	2007 **R million**	2006 Restated R million
33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
33.1.4 Top Management Pensions and Workmen's Compensation Act pensioners (continued)		
Workmen's Compensation Act pensioners		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	**7,75**	7,5
Pension increase (%)	**4,75**	4,5
Inflation rate (%)	**4,75**	4,5
Benefit liability		
Present value of obligations	**(238)**	(247)
Liability recognised in the balance sheet	**(238)**	(247)
Charge to the income statement		
Interest cost	**(18)**	(18)
	(18)	(18)
Actuarial loss recognised in statement of recognised income and expense	**–**	(26)
The cumulative actuarial losses recognised in equity	**(19)**	(19)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(247)**	(224)
Interest cost	**(18)**	(18)
Actuarial loss	**–**	(26)
Contributions paid	**27**	21
Benefit liability at year-end	**(238)**	(247)

Summary of actuarial valuation results for past periods

	2007 R million	2006 R million	2005 R million	2004 R million	2003 R million
Present value of defined benefit obligation	**(238)**	(247)	(224)	(204)	(211)
Deficit	**(238)**	(247)	(224)	(204)	(211)

The estimated contribution (based on current year contribution) for the year beginning 1 April 2007 is R27 million (2006: R21 million).

	GROUP	
	2007 **R million**	2006 Restated R million
33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
33.1.5 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. The scheme is now closed and at 31 March 2007, there were 3 045 widows belonging to this fund (2006: 3 240). The entire obligation relates to Transnet Ltd.		
The actuarial valuation was based on the projected unit credit method. The principal actuarial assumptions used are as follows:		
Discount rate (%)	**7,75**	7,5
Inflation rate (%)	**4,75**	4,5
Expected return on assets (%)	**4,75**	4,5
Pension increase (%)	**2,00**	2,00
Benefit liability		
Present value of obligation	**(73)**	(78)
Fair value of plan assets	**77**	79
Asset recognised in balance sheet	**4**	1
Charge to the income statement		
Expected return on assets	**5**	4
Interest cost	**(5)**	(6)
	–	(2)
Actual return on plan assets	**7**	5
Actuarial gain/(loss) recognised in the statement of recognised income and expense	**3**	(5)
The cumulative actuarial gains recognised in equity	**19**	16
Movements in the net asset recognised in the balance sheet		
Opening net asset	**1**	8
Expense as above	**–**	(2)
Actuarial gain/(loss) recognised in equity	**3**	(5)
Closing net asset	**4**	1
Reconciliation of movement in benefit liability		
Opening benefit liability	**(78)**	(75)
Interest cost	**(5)**	(6)
Actuarial gain	**1**	(6)
Benefits paid	**9**	9
Closing benefit liability	**(73)**	(78)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**79**	83
Expected return on assets	**5**	4
Actuarial gains	**2**	1
Benefits paid	**(9)**	(9)
Closing fair value of plan assets	**77**	79

Summary of actuarial valuation results for past periods

	2007 **R million**	2006 R million	2005 R million	2004 R million	2003 R million
Present value of defined benefit obligation	**(73)**	(78)	(75)	(64)	–
Fair value of plan assets	**77**	79	83	55	–
Surplus/(deficit)	**4**	1	8	(9)	–

No actuarial valuations were performed for this fund in the 2003 financial year. Hence no comparative data for the reconciliation of the movements in the liability and fair value of the plan assets have been reported for this period.

The estimated contribution (based on current year contribution) for the year beginning 1 April 2007 is R Nil (2006: R Nil).

33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)

33.1.6 HIV/Aids benefits

The 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.

33.2 Post-retirement medical benefits

SATS Pensioners' post-retirement medical benefits

Pensioners are the retired employees of the former South African Transport Services (SATS) and their dependants. The liability is in respect of these pensioners and their dependants who have elected to belong to the Transnet in-house medical scheme, Transmed, whose membership is voluntary.

A post-retirement 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 principal pensioner member. The entire obligation relates to Transnet Ltd.

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 2007 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	
	2007 **R million**	2006 Restated R million
33. POST-RETIREMENT BENEFIT OBLIGATIONS (continued)		
33.2.1 SATS pensioners		
Discount rate (%)	**7,75**	7,50
Benefit liability		
Present value of obligations	**(1 369)**	(1 607)
Liability recognised in the balance sheet	**(1 369)**	(1 607)
Charge to the income statement		
Interest cost	**(117)**	(133)
	(117)	(133)
Actuarial gain/(loss) recognised in the statement of recognised income and expense	**134**	(82)
The cumulative actuarial losses recognised in equity	**(286)**	(420)
Reconciliation of movement in benefit liability		
Opening benefit liability	**(1 607)**	(1 629)
Interest cost	**(117)**	(133)
Company contributions	**221**	237
Actuarial gain/(loss)	**134**	(82)
Closing benefit liability	**(1 369)**	(1 607)
Transnet subsidises members at a flat contribution of R800 per month per member. The medical inflation rate 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 7,75% on the present value of the obligation is as follows: Closing benefit liability based on changes in discount rate:		
6,75% (2006: 6,5%)	**(1 453)**	(1 714)
8,75% (2006: 8,5%)	**(1 296)**	(1 515)

Summary of actuarial valuation results for past periods

	2007 **R million**	2006 R million	2005 R million	2004 R million	2003 R million
Benefit liability	**(1 369)**	(1 607)	(1 629)	(1 751)	(1 715)
Deficit	**(1 369)**	(1 607)	(1 629)	(1 751)	(1 715)

The estimated contribution (based on current year contribution) for the year beginning 1 April 2007 is R221 million (2006: R237 million).

		GROUP	
		2007 **R million**	2006 Restated R million
33.	**POST-RETIREMENT BENEFIT OBLIGATIONS (continued)**		
33.2.2	**Transnet employees**		
	Closing benefit liability based on changes in discount rate (%)	**7,75**	7,50
	Benefit liability		
	Present value of obligations	**(720)**	(812)
	Liability recognised in the balance sheet	**(720)**	(812)
	The liability directly associated with assets classified as held-for-sale is R14 million (2006: R61 million) for the Group and R11 million (2006: R11 million) for the Company. The net liability for continuing operations is R706 million (2006: R751 million) for the Group.		
	The liability recognised for this fund relating to the Company amounts to R 717 million (2006: R762 million). The net liability for continuing operations is R706 million (2006: R751 million) for the Company.		
	Charge to the income statement		
	Current service cost	**(14)**	(13)
	Interest cost	**(63)**	(68)
		(77)	(81)
	Charge to the income statement relating to the Company is R72 million (2006: R76 million)		
	Actuarial gain/(loss) recognised in the statement of recognised income and expense	**87**	(37)
	The actuarial gain/(loss) recognised in the statement of recognised income and expense relating to the Company amounts to R77 million gain (2006: R34 million loss).		
	The cumulative actuarial gains/(losses) recognised in equity	**40**	(47)
	Reconciliation of movement in benefit liability		
	Opening benefit liability	**(812)**	(808)
	Expense as above	**(77)**	(81)
	Member and Company contributions	**41**	43
	Actuarial gain/(loss)	**87**	(37)
	Closing benefit liability	**(761)**	(883)
	Disposal of businesses	**41**	71
	Net benefit liability	**(720)**	(812)
	Transnet subsidises members at a flat contribution of R213 per month per member. The medical inflation rate 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 7,75% on the present value of the obligation is as follows:		
	Closing benefit liability based on changes in discount rate:		
	6,75% (2006: 6,5%)	**(852)**	(998)
	8,75% (2006: 8,5%)	**(686)**	(788)

Summary of actuarial valuation results for past periods

	2007 **R million**	2006 R million	2005 R million	2004 R million	2003 R million
Benefit liability	**(720)**	(812)	(808)	(741)	(545)
Deficit	**(720)**	(812)	(808)	(741)	(545)

The estimated contribution (based on current year contribution) for the year beginning 1 April 2007 is R41 million (2006: R43 million).

34. 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 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 (refer note 12). The Group and Company have related party relationships with its associates (refer 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.

COMPANY			GROUP	
2006 Restated R million	**2007 R million**		**2007 R million**	2006 Restated R million
		The following is a summary of transactions with related parties during the year and balances due at year-end according to Transnet's records:		
		Services rendered		
539	**872**	Major public enterprises	**1 045**	692
84	**71**	Other public enterprises	**370**	270
1 429	**864**	National Government business enterprises	**908**	1 438
66	**348**	Associates	**348**	97
188	**193**	Subsidiaries	**–**	–
2 306	**2 348**		**2 671**	2 497
		Services received		
862	**823**	Major public enterprises	**1 529**	1 429
210	**115**	Other public enterprises	**475**	564
750	**976**	National Government business enterprises	**983**	755
475	**354**	Associates	**357**	748
2 958	**284**	Subsidiaries	**–**	–
5 255	**2 552**		**3 344**	3 496
		Amount due from/(to)		
(39)	**307**	Major public enterprises*	**309**	(36)
(3)	**11**	Other public enterprises	**6**	(16)
(5 830)	**(6 782)**	National Government business enterprises**	**(6 782)**	(5 830)
(41)	**(37)**	Associates	**(39)**	(35)
(142)	**1 213**	Subsidiaries	**–**	–
(6 055)	**(5 288)**		**(6 506)**	(5 917)

During the year the Group expensed R3 million (2006: R16 million) in relation to bad debts on related parties and at year-end the Group had a provision of R34 million (2006: R46 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" (refer note 15).

Details of key management compensation are set out in the Report of Directors on page 147 to the annual financial statements.

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

During the year, South African Airways (Pty) Ltd was sold to the Department of Public Enterprise for an amount of R2 049 million, which is not included in "other public enterprises" above.

* Includes a loan to Neotel (Pty) Ltd of R226 million.

** Includes R7 023 million relating to bonds issued to National Government business enterprises.

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		35. CASH FLOW INFORMATION		
		35.1 Cash generated from operations		
5 844	**6 103**	Profit/(loss) before taxation	**7 968**	6 613
5 781	**6 179**	– Continuing operations	**8 222**	6 837
63	**(76)**	– Discontinued operations	**(254)**	(224)
2 246	**2 077**	Finance costs (refer note 35.3)	**2 791**	2 900
(352)	**(225)**	Finance income	**(304)**	(418)
(340)	**(47)**	Dividend income	**(36)**	(85)
2 344	**3 743**	Elimination of non-cash items	**3 069**	2 234
2 116	**2 960**	– Depreciation and amortisation	**3 020**	3 240
99	**202**	– Increase in provision for post-retirement benefit obligations	**395**	72
234	**(154)**	– (Reversal of impairment)/impairment of loss making subsidiaries and associates	**–**	141
(101)	**120**	– Impairment/(reversal of impairment) of trade and other receivables and loans and advances	**64**	(80)
64	**115**	– Impairment of property, plant and equipment	**154**	16
136	**86**	– Fair value adjustments of treasury bonds	**86**	136
331	**692**	– Movement in provisions	**708**	273
(41)	**(266)**	– Other fair value adjustments in the income statement	**(2 050)**	(818)
2	**33**	– Unrealised foreign exchange losses	**356**	45
19	**(6)**	– (Profit)/loss on sale of property, plant and equipment	**(27)**	(267)
–	**(23)**	– Write-off of loan account	**(23)**	
82	**–**	– Loss on disposal of the business of Spoornet Zambia	**–**	82
(404)	**–**	– Profit on sale of other investments	**–**	(411)
219	**303**	– Discount on bonds amortised	**303**	219
–	**164**	– Provision for obsolescence	**573**	–
(373)	**(483)**	– Fair value adjustment of investment property	**(490)**	(372)
(39)	**–**	– Other non-cash items	**–**	(42)
9 742	**11 651**		**13 488**	11 244
		35.2 Changes in working capital		
(211)	**(425)**	Increase in inventories	**(885)**	(127)
(456)	**193**	(Increase)/decrease in receivables	**(335)**	(706)
483	**644**	Increase in payables	**1 353**	415
(184)	**412**		**133**	(418)
		35.3 Finance costs		
2 486	**2 412**	Total finance costs	**3 062**	3 352
(21)	**(32)**	Net foreign exchange (gains)/losses on translation	**32**	(233)
(219)	**(303)**	Discounts on bonds amortised	**(303)**	(219)
2 246	**2 077**		**2 791**	2 900

COMPANY				GROUP	
2006 Restated R million	**2007** R million			**2007** R million	2006 Restated R million
		35.	**CASH FLOW INFORMATION (continued)**		
		35.4	**Taxation paid**		
			Balance at the beginning of the year		
(1 514)	**(1 259)**		– normal taxation (net)	**(1 320)**	(1 545)
			Taxation as per income statement		
(1 746)	**(1 121)**		– normal taxation	**(1 205)**	(1 881)
–	**–**		Taxation liabilities disposed	**70**	37
(40)	**(3)**		Acquired through business combination	**–**	–
			Balance at the end of the year		
1 259	**482**		– normal taxation (net)	**494**	1 283
(2 041)	**(1 901)**			**(1 961)**	(2 106)
		35.5	**Dividends paid to minorities**		
–	**–**		Balance at the beginning of the year	**–**	–
–	**–**		Dividends paid to minorities	**(8)**	(7)
–	**–**		Balance at the end of the year	**–**	–
–	**–**			**(8)**	(7)
		35.6	**Disposal of division/subsidiary**		
–	**–**		Property, plant and equipment	**8 577**	–
–	**–**		Intangible assets and goodwill	**108**	–
–	**–**		Derivative financial assets	**47**	–
–	**–**		Other investments	**1 123**	–
48	**–**		Inventories	**515**	48
190	**–**		Trade and other receivables	**3 305**	190
(106)	**–**		Cash and cash equivalents/(bank overdrafts)	**1 922**	(106)
–	**–**		Post-retirement benefit obligations	**(248)**	–
60	**–**		Borrowings	**(5 903)**	60
(69)	**–**		Provisions	**(518)**	(69)
(272)	**–**		Trade payables and accruals	**(7 831)**	(272)
–	**–**		Current taxation liability	**(70)**	–
(149)	**–**		Net asset value excluding consolidation adjustments	**1 027**	(149)
106	**–**		(Cash)/overdraft disposed of	**(1 922)**	106
		35.7	**Acquisition of division/subsidiary**		
23	**3**		Property, plant and equipment	**–**	–
3	**–**		Intangible assets and goodwill	**–**	–
3	**–**		Inventories	**–**	–
155	**126**		Trade and other receivables	–	–
(11)	**81**		Cash and cash equivalents/(bank overdrafts)	**–**	–
(11)	**–**		Post-retirement benefit obligations	**–**	–
383	**–**		Borrowings	**–**	–
(45)	**(1)**		Provisions	**–**	–
(281)	**(184)**		Trade payables and accruals	**–**	–
(40)	**(3)**		Current taxation liability	**–**	–
179	**22**		Net asset value	**–**	–
179	**22**		Purchase price	**–**	–
11	**(81)**		Cash/(overdraft) acquired	**–**	–
190	**(59)**		Net cash/(overdraft) acquired	**–**	–

COMPANY 2006 Restated R million	COMPANY 2007 R million		GROUP 2007 R million	GROUP 2006 Restated R million
		36. HEADLINE EARNINGS		
4 029	**5 294**	Profit for the year attributable to equity holder	**7 387**	4 898
19	**(6)**	(Profit)/loss on disposal of property, plant and equipment (refer note 4.2)	**(27)**	(267)
(67)	**(1 277)**	Profit on sale of interests in businesses (refer note 4.3)	**(1 637)**	(67)
(373)	**(483)**	Fair value adjustments on investment properties (refer note 5)	**(490)**	(372)
64	**115**	Impairment of property, plant and equipment (refer note 4.4)	**154**	16
234	**(154)**	(Reversal of impairment)/impairment of loss making subsidiaries and associates (refer note 4.4)	**–**	141
(79)	**–**	(Reversal of provision)/provision for losses on sale of discontinued operations – restructuring costs	**–**	(79)
8	**357**	Taxation effects of the above	**313**	113
3 835	**3 846**	Headline earnings	**5 700**	4 383

37. CHANGE IN ACCOUNTING POLICY AND OTHER RESTATEMENTS

The Group fully adopted the following standards, amendments to standards, and circulars in the current financial year:

- IFRIC 4 *Determining whether an arrangement contains a lease;*
- IAS 39 *Financial Instruments: Recognition and Measurement – Fair value option (Amendment to IAS 39 Fair Value Adjustments);*
- IAS 39 *Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts (Amendment to IAS 39 Financial Guarantee Contracts);*
- IAS 21 *The effects of changes in foreign exchange rates – Net investment in a foreign operation (Amendment to IAS 21 The effects of changes in foreign exchange rates);*
- Circular 1/2006 *Disclosures in relation to deferred taxation;* and
- Circular 9/2006 *Transactions giving rise to adjustments of revenue/purchases.*

The principal effects of adopting the above are discussed below:

IFRIC 4 *Determining whether an arrangement contains a lease*

Although not a legal form of a lease, certain arrangements may contain a lease because the fulfilment of the arrangement is economically dependent on the use of an asset and it is unlikely that any parties other than the Group will receive more than an insignificant part of the output. The effect of adopting IFRIC 4 on the Group's accounting policies has resulted in the recognition of certain finance and operating leases in terms of IAS 17 *Leases*. The recognition of such leases has resulted in a retrospective adjustment to the Group's financial information.

Amendment to IAS 21 *The effects of changes in foreign exchange rates – Net investment in a foreign operation*

In terms of this amendment, the Group is required to recognise exchange differences that arise on a monetary item that forms part of the Group's net investment in a foreign operation, as a separate component of equity in the consolidated financial statements. This has, however, not resulted in a change in current Group policies and practices and as such, no restatement has been recognised in this regard.

Amendment to IAS 39 *Financial instruments: Recognition and measurement – fair value option*

This amendment was introduced to restrict the use of the option to designate any financial asset or financial liability to be measured at fair value through profit and loss. The Group has elected to adopt the fair value option where designation eliminates or significantly reduces an accounting mismatch, or where a group of financial assets, financial liabilities or both , is managed by the Group and its performance is evaluated on a fair value basis in accordance with the Group's risk management or investment strategy, and information about the group of assets/liabilities is provided internally on that basis to the Group's key management personnel.

This, however, has not resulted in an adjustment to the opening accumulated profit or in changes to what have ordinarily been recorded as fair value adjustments in the prior years, or in the current year.

37. CHANGE IN ACCOUNTING POLICY AND OTHER RESTATEMENTS (continued)

Amendment to IAS 39 *Financial instruments: Recognition and measurement – financial guarantee contracts*

The effect of adopting this amendment on the Group's accounting policies will impact the recognition of financial guarantee liabilities in the Group's financial information. These guarantees are initially to be recognised at fair value, and subsequently, at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue.*

This amendment has not resulted in a restatement to the financial results.

Circular 1/2006 *Disclosure in relation to deferred taxation*

The Group has considered the manner in which an asset will be realised or a liability settled in order to determine the amount of deferred taxation that should be recognised for that specific asset or liability. While applicable, this amendment has not resulted in a restatement to the financial results.

Circular 9/2006 *Transactions giving rise to adjustments of revenue/purchases*

Cash discounts and rebates are required to be accounted for as an adjustment to revenue or the carrying value of inventory, as the case may be. Where extended payment terms are granted by the Group, the effect of the time value of money is taken into account. This change in accounting policy has been applied retrospectively.

This amendment has resulted in a reclassification between revenue and net operating expenses before depreciation and amortisation of R295 million in discontinued operations for Group entities in the previous financial year.

IAS 12 *Income taxes*

The application of the initial recognition requirements of IAS 12 in relation to revaluation of assets that are not subject to taxation allowances was amended. The effects of these adjustments are disclosed below.

IAS 40 *Investment properties*

Properties that meet the definition of investment properties per IAS 40 *Investments Properties* were reclassified from property, plant and equipment to investment properties retrospectively. The carrying values of these properties have been restated to fair value in accordance with IAS 40.

The impacts of the changes in accounting policies and other restatements are summarised below:

COMPANY			GROUP	
1 April 2005 R million	**31 March 2006 R million**		**31 March 2006 R million**	1 April 2005 R million
		INCOME STATEMENT		
	3 670	**Profit for the year attributable to equity holder, as previously reported**	**4 539**	
	359	Net effect of restatements	**359**	
	25	IFRIC 4 adjustments	**25**	
	(5)	– Deferred taxation impact	**(5)**	
	398	Increase in investment properties	**398**	
	(59)	– Deferred taxation impact	**(59)**	
	4 029	**Restated profit attributable to equity holder**	**4 898**	
		BALANCE SHEET		
19 802	**25 438**	**Equity attributable to shareholder, as previously reported**	**27 593**	21 018
1 487	**1 820**	Net effect of restatements	**1 820**	1 487
(5)	**20**	IFRIC 4 adjustments	**20**	(5)
1	**(4)**	– Deferred taxation impact	**(4)**	1
530	**928**	Increase in investment properties	**928**	530
(73)	**(132)**	– Deferred taxation impact	**(132)**	(73)
1 034	**1 008**	Deferred taxation adjustments	**1 008**	1 034
21 289	**27 258**	**Restated equity attributable to shareholder**	**29 413**	22 505

COMPANY			GROUP	
1 April 2005 R million	**2006 R million**		**2006 R million**	1 April 2005 R million
		37. CHANGE IN ACCOUNTING POLICY AND OTHER RESTATEMENTS (continued)		
		The detailed impacts of the changes in accounting policies and other restatements on the financial statements are as follows:		
		INCOME STATEMENT		
		IFRIC 4 adjustments		
	39	Decrease in net operating costs excluding depreciation and amortisation	**39**	
	(3)	Increase in depreciation and amortisation	**(3)**	
	(11)	Increase in finance costs	**(11)**	
	(5)	Increase in taxation charge	**(5)**	
	20	Increase in net profit	**20**	
		Investment properties adjustments		
	25	Decrease in depreciation and amortisation	**25**	
	373	Increase in fair value adjustments	**373**	
	(59)	Increase in taxation charge	**(59)**	
	339	Increase in net profit	**339**	
		BALANCE SHEET		
		IFRIC 4 adjustments		
60	**57**	Cumulative increase in property, plant and equipment	**57**	60
–	**28**	Cumulative increase in other investments and other financial assets	**28**	–
60	**85**		**85**	60
(4)	**16**	Cumulative increase/(decrease) in reserves	**16**	(4)
65	**65**	Cumulative increase in long-term borrowings	**65**	65
(1)	**4**	Cumulative increase/(decrease) in deferred taxation	**4**	(1)
60	**85**		**85**	60

COMPANY			GROUP	
1 April 2005 R million	**2006 R million**		**2006 R million**	1 April 2005 R million
		37. CHANGE IN ACCOUNTING POLICY AND OTHER RESTATEMENTS (continued)		
		BALANCE SHEET (continued)		
		Investment properties adjustments		
(1 434)	**(1 409)**	Cumulative decrease in property, plant and equipment	**(1 409)**	(1 434)
1 964	**2 337**	Cumulative increase in investment properties	**2 337**	1 964
530	**928**		**928**	530
457	**796**	Cumulative increase in reserves	**796**	457
73	**132**	Cumulative increase in deferred taxation	**132**	73
530	**928**		**928**	530
		Deferred taxation adjustments		
1 034	**1 008**	Cumulative increase in reserves	**1 008**	1 034
(1 034)	**(1 008)**	Cumulative decrease in deferred taxation	**(1 008)**	(1 034)
–	**–**		**–**	–
		STATEMENT OF RECOGNISED INCOME AND EXPENSE		
	(26)	Decrease in taxation of revalued property, plant and equipment	**(26)**	
	359	Increase in profit for the year	**359**	
	333	Increase in total income recognised for the year	**333**	

INTRODUCTION

The Group has a centralised Treasury function and the Treasury performs a supporting role to Transnet divisions and subsidiaries, and has a responsibility for the management of treasury and financial risks the Group is exposed to in pursuit of its business. Treasury is also charged with ensuring that Transnet is optimally funded.

The Financial Risk Management Framework (FRM) of the Group was reviewed, substantially updated and approved by the Board over the last twelve months to address the specific needs of the core divisions. The objectives of the FRM are to ensure that the financial, operational, and strategic risks applicable to the funding, trading and investment activities are identified, monitored and appropriately managed in the context of the Group enterprise wide risk management framework, Public Finance Management Act (PFMA) and other applicable regulation.

RISK PHILOSOPHY

The long-term viability, continued success and reputation of Transnet are critically dependent on the credibility of risk management, and the commitment in applying best practice in risk management. The risk management philosophy is underpinned by the Transnet strategic objectives of focusing on lowering the costs of doing business in South Africa, and enabling economic growth through focused port, rail, and pipeline businesses, in a manner that is consistent with the shareholder and stakeholder expectations.

RISK PROFILE

Financial risk assessment and analysis are disclosed on a monthly basis to the Group Asset and Liability Management Committee (ALCO) and the Group Executive Committee (Exco). These committees are responsible for reporting financial risk exposures to the Transnet Board of Directors on a bimonthly basis.

The Group's business operations expose it to foreign currency, interest rate, liquidity, counterparty, commodity and price risk, which are discussed under headings below.

FUNDING ACTIVITIES

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 2007:

Bond	Redemption date	Coupon rate %	Effective interest rate (nacs) %	2007 Fair value R million	2007 Nominal value R million	2006 Fair value R million	2006 Nominal value R million
T004*	1 April 2008	7,50	14,99	**4 592**	**4 661**	4 677	4 661
T011*	1 April 2010	16,50	13,21	**1 608**	**1 325**	1 728	1 325
T018*	15 July 2014	10,75	10,39	**7 021**	**6 000**	7 177	6 000
			A	**13 221**	**11 986**	13 582	11 986

Euro rand bonds

Bond	Redemption date	Coupon rate %	Effective interest rate (naca) %	2007 Fair value R million	2007 Nominal value R million	2006 Fair value R million	2006 Nominal value R million
Euro 42*	18 April 2028	13,50	13,86	**3 182**	**2 000**	3 266	2 000
Euro 42A*	30 March 2029	10,00	15,09	**1 854**	**1 500**	1 897	1 500
			B	**5 036**	**3 500**	5 163	3 500
Group and Company bonds at nominal value (refer note 25)			A + B		**15 486**		15 486

* These domestic rand bonds and Eurorand bonds are for both Company and Group.

OTHER RAND BORROWINGS

	2007 Fair value R million	2007 Company nominal R million	2007 Group nominal R million	2006 Fair value R million	2006 Company nominal R million	2006 Group nominal R million
Other rand denominated**	–	5	5	–	8	8
Secured rand denominated	–	2 259	2 752	–	1 289	4 769
Long-term**	–	2 242	2 623	–	1 289	4 769
Short-term*	–	17	129	–	–	–
Promissory notes**	–	–	2 210	–	–	2 031
Other short-term borrowings fair valued*	1 492	1 417	1 417	1 889	1 618	1 618
Other short-term borrowings held at amortised cost*	–	1 611	1 611	–	174	174
Commercial paper*	–	2 000	2 000	–	1 000	1 000
Domestic rand loans	1 492	7 292	9 995	1 889	4 089	9 600
Total domestic borrowings		22 778	25 481		19 575	25 086

** Refer note 25
* Refer note 30 (included in other short-term borrowings)

The rand secured loans are secured over aircraft and capitalised leasehold improvements.

Since the new commercial paper programme was launched during February 2006, the shareholder has approved the increasing of the issue size from R2,5 billion to R5 billion. The issue is not guaranteed by the Government and is listed on the Bond Exchange of South Africa (BESA). This programme is utilised to finance working capital requirements at a very reasonable cost for the Group.

Interest rate swaps with a notional value of R300 million (2006: R300 million) and with a positive fair value of R25 million (2006: R52 million positive) were open at 31 March 2007. During the financial year a loss of R6 million was recognised in the income statement comprising a realised gain (cash) of R21 million and an unrealised loss of R27 million. The interest rate swaps were entered into to swap part of the T004 borrowings from fixed to floating and carry a fixed interest rate that is equal to the coupon payments of the T004.

After accounting for the above interest rate swaps, the interest rate exposure on the long-term domestic borrowings as at 31 March 2007 was:

	Total borrowings R million	Floating exposure R million	Floating exposure as % of total	Fixed borrowings R million
2007				
Group	**23 426**	**6 725**	**28,71**	**16 701**
Company	**20 722**	**4 516**	**21,79**	**16 206**
2006				
Group	24 414	4 987	20,43	19 427
Company	18 905	710	3,78	18 195

INVESTMENTS

Investments are only allowed with international counterparties with a minimum international long-term credit rating of A- and domestic counter parties with a minimum national long-term credit rating of A- (zaf) as rated by a recognised rating agency and approved by the Board as an approved counterparty. In addition to this the counterparty must have a minimum short-term credit rating of A-1 (F1 zaf) to qualify for cash type of investments.

	2007				2006			
	Company Nominal R million	**Company Fair value R million**	**Group Nominal R million**	**Group Fair value R million**	Company Nominal R million	Company Fair value R million	Group Nominal R million	Group Fair value R million
Domestic	**691**	**703**	**691**	**704**	591	657	1 202	1 269
Foreign	**–**	**–**	**131**	**131**	–	–	874	926

The fair value of the Group's investments at March 2007 comprise the following:

	Domestic	**Foreign**	**Total**
Shares in listed companies	**–**	**131**	**131**
Market making bonds	**150**	**–**	**150**
Short-term deposit	**500**	**–**	**500**
Carries and repurchases	**52**	**–**	**52**
Other	**2**	**–**	**2**
	704	**131**	**835**

FOREIGN CURRENCY RISK

Currency risk (FX) exposures are inherent in operational maintenance and capital expenditure programmes. The preferred FX risk mitigating strategy is to enter into rand-based financing and supplier contracts at an acceptable cost. If not achievable, all FX related exposures are fully covered as soon as exposures are committed by means of vanilla type approved hedging instruments.
The accounting and the financial risk management implications are fully analysed before a hedging strategy is implemented.

Details of significant foreign currency exposures are reflected below. Fair value hedge accounting is applied to the majority of FX related liabilities to minimise volatility in the Group's income statement.

NOMINAL AMOUNTS, FAIR VALUES AND MATURITY PROFILES OF FORWARD EXCHANGE CONTRACTS AND CURRENCY OPTIONS USED AS HEDGES

	Total nominal value million	**2007 million**	2008 million	2009 million
Group				
Nominal				
US dollars	**17**	**17**	–	–
Japanese yen	**29 378**	**2 840**	9 581	16 957
Euro	**145**	**90**	34	21
Australian dollars	**10**	**8**	2	–

	Total fair value R million	**2007 R million**	2008 R million	2009 R million
Group				
Fair value				
US dollars	**(34)**	**(34)**	–	–
Japanese yen	**(83)**	**(28)**	(39)	(15)
Euro	**81**	**53**	16	11
Australian dollars	**2**	**1**	1	–
	(34)	**(8)**	(22)	(4)

* The Group amounts include amounts for a subsidiary, being nominal US dollars 8 million, and fair value (R33 million).

FOREIGN CURRENCY EXPOSURE AND COVER

Currency	2007 Total borrowings foreign currency million	Exposures for future expenditure foreign currency million	2007 Total exposure foreign currency million	Total cover foreign currency million	Uncovered exposure foreign currency million
Group					
US dollars	25	36	61	41	20
Japanese yen	887	28 491	29 378	29 378	–
Euro	–	152	152	145	7
Australian dollars	–	10	10	10	–
Total exposure in rands	232	3 529	3 763	3 552	213
Company					
US dollars	24	28	52	32	20
Japanese yen	887	28 491	29 378	29 378	–
Euro	–	152	152	145	7
Australian dollars	–	10	10	10	–
Total exposure in rands	227	3 471	3 698	3 486	212

FOREIGN CURRENCY INTEREST RATE RISK

Cross-currency interest rate swaps are utilised to hedge foreign currency interest rate risks. The full foreign exchange portfolio has been swapped to a rand-based interest rate risk exposure. The Board has approved a targeted range of fixed interest rates that may be managed to enable management to take advantage of interest rate cycles.

The following were significant positions at 31 March 2007:

	Fair value R million 2007	Notional amount foreign currency million 2007	Fair value R million 2006	Notional amount foreign currency million 2006
Group				
Cross currency				
US dollar	(111)	24	(184)	30
Company				
Cross currency				
US dollar	(111)	24	(184)	30

The foreign currency interest rate exposures after taking the interest rate and cross currency swaps into account on 31 March 2007 are presented in the table below:

Currency	Total borrowings R million	Fixed borrowings R million
Group		
US dollar	**177**	**177**
Japanese yen	**55**	**55**
Long-term **	**44**	**44**
Short-term*	**11**	**11**
Total	**232**	**232**
Company		
US dollar	**172**	**172**
Japanese yen	**55**	**55**
Long-term**	**44**	**44**
Short-term*	**11**	**11**
Total	**227**	**227**

** Refer note 25
* Refer note 29 (included in other short-term borrowings)

MARKET MAKING IN TRANSNET BONDS

Transnet Ltd makes a market in the T004 and the T011 bond issues, with no market making on the T018 and two Eurorand issues. The Group has adopted a policy that no market making will be done by Transnet on future bond issues.

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 2007 this exposure amounted to a net short nominal position of R8,3 million (31 March 2006: R1,5 million short).

The following positions in local market bonds were held at year-end.

	2007 fair value R million	2006 fair value R million
Short positions in listed bonds		
Bonds at nominal value	**1 294**	1 420
Bonds at fair value	**1 549**	1 889
Long positions in listed bonds		
Bonds at nominal value	**140**	261
Bonds at fair value	**202**	642

No collateral was held against any market making positions at reporting date.

LIQUIDITY RISK

Liquidity risk is managed to ensure that the Group is in a position to advance funds for capital expenditure, redeem and service loans in money and capital markets, finance operational costs and generate cash for unanticipated financial commitments. Certain thresholds, which are a combination of available cash and unutilised credit facilities are minimum requirements of the approved policy to ensure effective liquidity risk management. The weighted average duration of money market investments may not exceed 180 days.

The following is a summary of long-term on balance sheet borrowings by currency and redemption:

	Total borrowings 2007 R million	Repayable during the financial year ended 31 March 2008 R million	2009 R million	2010 R million	2011 R million	2012 onwards R million
Group						
US dollars	**177**	48	53	37	39	–
Japanese yen	**55**	33	22	–	–	–
Total foreign currencies	**232**	81	75	37	39	–
Total SA rand	**23 426**	6 042	3 355	(532)*	1 624	12 937
Total interest-bearing borrowings	**23 658**	6 123	3 430	(495)*	1 663	12 937
Current portion of borrowings	**(6 123)**	(6 123)	–	–	–	–
Total long-term interest-bearing borrowings	**17 535**	–	3 430	(495)*	1 663	12 937
Redemption period as % of total	**100**	–	20	(3)	9	74
Company						
US dollars	**172**	45	51	37	39	–
Japanese yen	**55**	33	22	–	–	–
Total foreign currencies	**227**	78	73	37	39	–
Total SA rand	**20 722**	3 630	3 129	(571)*	1 597	12 937
Total interest-bearing borrowings	**20 949**	3 708	3 202	(534)*	1 636	12 937
Current Portion of borrowings	**(3 708)**	(3 708)	–	–	–	–
Total long-term interest-bearing borrowings	**17 241**	–	3 202	(534)*	1 636	12 937
Redemption period as % of total	**100**	–	19	(3)	9	75

* The borrowings payable by the Company and Group in 2010 are shown as a receivable, because in that year draw-downs received on structured loans, exceed repayments made on all other loans.

COUNTERPARTY RISK

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

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

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily of cash, short-term deposits, Government and public corporation bonds listed on the Bond Exchange of South Africa and the market value of derivatives and trade receivables. The Group's exposures to credit risk 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's 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 2007.

	2007 R million	2006 R million
Credit risk (inclusive of marginal risk)**	**3 830**	2 780
Bond issuer risk**	**17**	269
Guarantees	**5 696**	5 687
Trade and other receivables*	**3 992**	4 149
	13 535	12 885

Note: Included in Guarantees (R5 696 million) is a US dollar guarantee of US dollars 2,6 million
* Refer note 18. Trade and other receivables are shown net of impairment losses.

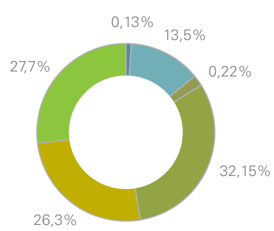
**DEFINITIONS

- **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 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.

The following diagram reflects the distribution of credit risk, expressed in terms of long-term credit ratings, excluding guarantees and trade receivables. The non-rated banks are financial institutions situated in Africa. These accounts are monitored on a regular basis to ensure that credit limits are not breached.



Transnet Ltd and Transnet Group
Risk per long-term rating

COMMODITY PRICE HEDGING

Transnet Ltd has not made use of fuel hedging in the past. The latest Board approved Financial Risk Management Framework now allows Treasury to hedge fuel risk exposures. The majority of fuel risk exposures are concentrated at Spoornet in respect of diesel traction fuel.

FAIR VALUE

At 31 March 2007 and 2006 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 as to the carrying value of these instruments at year-end, but these may differ from the values that will finally be realised.

CURRENCY CONVERSION

The mid rates of exchange at 31 March 2007 used for conversion were:

	2007	2006
US dollar	**7,2160**	6,3274
Pound sterling	**14,1838**	10,9708
Japanese yen	**0,0614**	0,0535
Euro	**9,6132**	7,5704
Australian dollar	**5,8208**	4,4785

PROPERTY, PLANT AND EQUIPMENT RECONCILIATION AT 31 MARCH 2007

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million
GROUP			
Restated balance at the beginning of the year			
Historical cost and revaluation	1 045	9 575	3 914
Accumulated depreciation	(469)	(1 447)	(2 542)
Accumulated impairment	–	(300)	(39)
Restated opening net carrying value at 1 April 2006	576	7 828	1 333
Current year movements			
Additions	78	267	682
Disposals	–	(33)	(190)
Depreciation*	(67)	(280)	(319)
Derecognition*	–	(21)	(13)
Revaluation	–	–	–
Impairment – historical cost and revaluation	–	(19)	(5)
Transferred to intangibles, inventories and receivables	–	–	(20)
Transfers to non-current assets classified as held-for-sale	–	(127)	(126)
Reclassifications	–	–	–
Transfer from capital work in progress to assets	–	499	159
	11	286	168
Closing carrying value at 31 March 2007	**587**	**8 114**	**1 501**
Made up as follows:			
Historical cost and revaluation	**1 123**	**9 958**	**3 533**
Accumulated depreciation	**(536)**	**(1 709)**	**(1 991)**
Accumulated impairment	**–**	**(135)**	**(41)**
Carrying value at 31 March 2007	**587**	**8 114**	**1 501**

• Aggregated in note 4.1.

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
7 617	9 335	18 986	13 142	445	7 446	71 505
(2 096)	(6 094)	(7 296)	(4 836)	(374)	–	(25 154)
–	(152)	(442)	(54)	(1)	(182)	(1 170)
5 521	3 089	11 248	8 252	70	7 264	45 181
(48)	(12)	48	513	1	9 568	11 097
(6)	–	(110)	(56)	(1)	(10)	(406)
(226)	(237)	(531)	(839)	(25)	–	(2 524)
(14)	–	–	(365)	–	–	(413)
–	662	1 072	–	–	–	1 734
–	–	(9)	(73)	–	(20)	(126)
–	–	–	(142)	–	(103)	(265)
–	–	(1)	(198)	–	–	(452)
52	–	–	73	–	(125)	–
288	68	1 224	5 008	132	(7 378)	–
46	481	1 693	3 921	107	1 932	8 645
5 567	**3 570**	**12 941**	**12 173**	**177**	**9 196**	**53 826**
7 880	**10 371**	**21 476**	**17 715**	**585**	**9 398**	**82 039**
(2 313)	**(6 648)**	**(8 084)**	**(5 415)**	**(407)**	**–**	**(27 103)**
–	**(153)**	**(451)**	**(127)**	**(1)**	**(202)**	**(1 110)**
5 567	**3 570**	**12 941**	**12 173**	**177**	**9 196**	**53 826**

PROPERTY, PLANT AND EQUIPMENT RECONCILIATION AT 31 MARCH 2007

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million
COMPANY			
Restated balance at the beginning of the year			
Historical cost and revaluation	26	9 571	3 857
Accumulated depreciation	(25)	(1 446)	(2 500)
Accumulated impairment	–	(299)	(27)
Restated opening net carrying value at 1 April 2006	1	7 826	1 330
Current year movements			
Additions	–	254	681
Disposals	–	(33)	(190)
Depreciation*	–	(280)	(319)
Derecognition*	–	(21)	(13)
Revaluation	–	–	–
Impairment – historical cost and revaluation	–	(8)	(5)
Transferred to intangibles, inventories and receivables	–	–	(18)
Transfers to non-current assets classified as held-for-sale	–	(127)	(126)
Reclassifications	–	–	–
Transfer from capital work in progress to assets	–	499	159
	–	284	169
Closing carrying value at 31 March 2007	**1**	**8 110**	**1 499**
Made up as follows:			
Historical cost and revaluation	**26**	**9 938**	**3 482**
Accumulated depreciation	**(25)**	**(1 707)**	**(1 953)**
Accumulated impairment	**–**	**(121)**	**(30)**
Carrying value at 31 March 2007	**1**	**8 110**	**1 499**

• Aggregated in note 4.1.

	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
	7 672	9 335	18 986	13 142	458	7 409	70 456
	(2 096)	(6 094)	(7 296)	(4 836)	(390)	–	(24 683)
	–	(152)	(442)	(54)	–	(182)	(1 156)
	5 576	3 089	11 248	8 252	68	7 227	44 617
	(48)	(6)	97	517	1	9 580	11 076
	(6)	–	(110)	(56)	(1)	(10)	(406)
	(228)	(238)	(535)	(839)	(25)	–	(2 464)
	(14)	–	–	(365)	–	–	(413)
	–	662	1 072	–	–	–	1 734
	–	–	(9)	(73)	–	(20)	(115)
	–	–	–	(142)	–	(103)	(263)
	–	–	(1)	(198)	–	–	(452)
	52	–	–	73	–	(125)	–
	288	68	1 224	5 004	133	(7 375)	–
	44	486	1 738	3 921	108	1 947	8 697
	5 620	**3 575**	**12 986**	**12 173**	**176**	**9 174**	**53 314**
	7 935	**10 377**	**21 525**	**17 715**	**578**	**9 376**	**80 952**
	(2 315)	**(6 649)**	**(8 088)**	**(5 415)**	**(402)**	**–**	**(26 554)**
	–	**(153)**	**(451)**	**(127)**	**–**	**(202)**	**(1 084)**
	5 620	**3 575**	**12 986**	**12 173**	**176**	**9 174**	**53 314**

DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE

		COMPANY				
		A	B	C	D	E
				=A+B		=C+D
	Notes	freight-dynamics† R million	Intercompany eliminations and other adjustments‡ R million	Disposal groups R million	Non-current assets held-for-sale R million	Total R million
Assets classified as held-for-sale						
Property, plant and equipment	a	210	35	245	452	697
Intangible assets and goodwill	b	–	–	–	11	11
Investments in subsidiaries	c	1	–	1	461	462
Investments in associates and joint ventures	d	–	–	–	84	84
Loans and advances	f	–	–	–	1 258	1 258
Inventories	h	2	–	2	1	3
Trade and other receivables	i	128	2	130	176	306
Cash and cash equivalents	j	–	–	–	–	–
Total		**341**	**37**	**378**	**2 443**	**2 821**
Liabilities directly associated with assets classified as held-for-sale						
Post-retirement benefit obligations	k	(11)	–	(11)	–	(11)
Borrowings	l	(368)	368	–	–	–
Derivative financial liabilities	e	–	–	–	–	–
Provisions	m	(25)	–	(25)	(17)	(42)
Deferred taxation liabilities	n	–	–	–	–	–
Trade and other payables	o	(95)	3	(92)	(68)	(160)
Current taxation liability	p	–	–	–	–	–
Bank overdraft	q	–	–	–	–	–
Group loans		(127)	127	–	–	–
Total		**(626)**	**498**	**(128)**	**(85)**	**(213)**

The above disposal groups form part of the overall restructuring plan of Transnet to dispose of its non-core entities. The 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.

† Included in road segment.
‡ Included in the other segment.

GROUP							
F	G	H	I	J	K	L	M
					=F+G+H+I+J		=K+L
Viamax (Pty) Ltd† excluding HSA R million	Autopax Passenger Services (Pty) Ltd† R million	Freight Dynamics Guard Risk‡ R million	freight-dynamics† R million	Intercompany eliminations and other adjustments‡ R million	Disposal groups R million	Non-current assets held-for-sale R million	Total R million
1 074	60	–	210	248	1 592	452	2 044
2	–	–	–	–	2	10	12
–	–	–	1	(1)	–	–	–
–	–	–	–	–	–	101	101
–	–	–	–	–	–	1 258	1 258
–	3	–	2	–	5	1	6
113	11	2	128	(74)	180	176	356
139	1	19	–	(24)	135	–	135
1 328	**75**	**21**	**341**	**149**	**1 914**	**1 998**	**3 912**
–	(3)	–	(11)	–	(14)	–	(14)
(50)	(68)	–	(368)	486	–	–	–
–	–	–	–	–	–	–	–
(5)	(8)	–	(25)	–	(38)	(17)	(55)
(95)	–	–	–	–	(95)	–	(95)
(72)	(45)	(7)	(95)	13	(206)	(68)	(274)
(15)	–	(1)	–	24	8	–	8
–	–	–	–	–	–	–	–
(354)	–	–	(127)	481	–	–	–
(591)	**(124)**	**(8)**	**(626)**	**1 004**	**(345)**	**(85)**	**(430)**

NOTES TO DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		a.	**PROPERTY, PLANT AND EQUIPMENT**		
–	408		Net carrying value at the beginning of the year	9 936	–
–	11		Additions	577	–
–	(170)		Disposals	(244)	–
–	(2)		Scrapping	(70)	–
–	–		Disposal of subsidiary/division	(8 577)	–
–	–		Impairment	(28)	–
–	(2)		Depreciation	(2)	–
408	452		Transferred from continuing operations (refer annexure B)	452	9 936
408	697			2 044	9 936
		b.	**INTANGIBLE ASSETS AND GOODWILL**		
–	1		Net carrying value at the beginning of the year	9	–
–	–		Additions	102	–
–	(1)		Disposals	(2)	–
–	–		Disposal of subsidiary/division	(108)	–
1	11		Transferred from continuing operations (refer note 11)	11	9
1	11			12	9
		c.	**INVESTMENTS IN SUBSIDIARIES (refer annexure D)**		
–	1		Shares at cost		
–	511		Net amounts owing by subsidiaries		
–	512				
–	(50)		Provision for impairment and losses		
–	462				
2 224	–		Transferred from continuing operations (refer note 12)		
2 224	462				
		d.	**INVESTMENTS IN ASSOCIATES (refer annexure D)**		
–	567		Balance at the beginning of the year	1 282	–
–	(447)		Disposals	(1 145)	–
–	(114)		Transfers to other investments	(114)	–
567	78		Transferred from continuing operations (refer note 13)	78	1 282
567	84			101	1 282
1 480	108		Directors' valuation	108	1 480
		e.	**DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**		
–	–		**Derivative financial assets**	–	180
–	–		Opening balance	180	–
–	–		Income statement credit	69	–
–	–		Derivatives raised and settled	(202)	–
–	–		Disposal of subsidiary/division	(47)	–
–	–		Transferred from continuing operations (refer note 14)	–	180
		f.	**LOANS AND ADVANCES**		
–	–		Balance at the beginning of the year	–	–
–	1 258		Transferred from continuing operations (refer note 15)	1 258	–
–	1 258			1 258	–

				GROUP	
2006 Restated R million	2007 R million			2007 R million	2006 Restated R million
15	–	g.	**OTHER INVESTMENTS**	–	1 007
2	3	h.	**INVENTORIES**	6	469
121	306	i.	**TRADE AND OTHER RECEIVABLES**	356	3 040
–	–	j.	**CASH AND CASH EQUIVALENTS**	135	332
		k.	**POST-RETIREMENT BENEFIT OBLIGATIONS**		
–	11		Balance at the beginning of the year	101	–
–	–		Current year provision	177	–
–	–		Disposal of subsidiary/division	(248)	–
–	–		Settlements during the year	(34)	–
–	–		Actuarial losses	18	–
11	–		Transferred from continuing operations (refer note 24)	–	101
11	11			14	101
		k.(i)	**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		
–	–		Opening benefit liability	(5)	(5)
–	–		Raised during the year	–	–
–	–		Settlement during the year	–	–
–	–		Closing benefit liability	(5)	(5)
–	–		Disposal of SAA	5	–
–	–		Net benefit liability	–	(5)
		k.(ii)	**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. No person is eligible to participate in the final salary section in respect of pensionable after 30 June 2003 unless they were already participating in the final salary section at the date and their 63 birthday falls before 1 June 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 earning limit (with a pro rata adjustment for part timers) at the beginning of each scheme year (1 July).		

		GROUP	
		2007 **R million**	2006 Restated R million
k.(ii)	**SAA (UK) Pension Fund (continued)**		
	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 13 active members, 11 deferred members and 25 pensioners as at 31 March 2007 (2006: 16 active members and 21 pensioners).		
	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 as required by IAS 19 *Employee Benefits* in March 2007. The fund had a surplus of R19,5 million at the date.		
	The employer's pension contributions for the year to 31 March 2008 are expected to amount to approximately R6,6 million (2006: R5 million). These exclude employer's pension contributions to the money purchase section, the Group Life premiums which are paid by the employer.		
	The principal actuarial assumptions used were as follows:		
	Discount rate (%)	**5,4**	4,9
	Expected return on assets (%)	**6,4**	5,9
	Price inflation (%)	**3,3**	3,0
	Expected rate of salary increases (%)	**5,8**	5,5
	Pension increases in payment (%)	**3,3**	3,0
	Pension increases during deferment (%)	**3,3**	3,0
	The results of the actuarial valuation are as follows:		
	Benefit asset		
	Present value of obligation	**(68)**	(55)
	Fair value of plan assets	**87**	58
	Surplus	**19**	3
	Unrecognised assets	**(19)**	(3)
	Net liability per the balance sheet	**–**	–

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.

		GROUP	
		2007 **R million**	2006 Restated R million
k.(ii)	**SAA (UK) Pension Fund (continued)**		
	Credit to the income statement		
	Interest cost	**(3)**	(3)
	Current service cost	**(1)**	(1)
	Exchange differences on foreign plans	**–**	6
	Expected return on assets	**5**	7
		1	9
	Actual return on plan assets	**7**	12
	Actuarial gain recognised in the statement of recognised income and expenditure	**(7)**	–
	The cumulative actuarial gains recognised in equity which has been disposed of	**9**	–
	Movement in the net asset/(liability) recognised in the balance sheet		
	Opening net liability	**–**	(10)
	Expenses as per above	**1**	9
	Actuarial gains in equity	**7**	–
	Contribution paid	**7**	4
	Exchange difference	**1**	–
	Surplus	**16**	3
	Unrecognised asset	**(16)**	(3)
	Closing net liability	**–**	–
	Reconciliation of movement in benefit liability		
	Opening benefit liability	**(55)**	(58)
	Current service cost	**(1)**	(1)
	Interest cost	**(3)**	(3)
	Actuarial gain/(loss)	**5**	(5)
	Exchange differences on foreign plans	**(17)**	11
	Benefits paid	**3**	1
	Closing benefit liability	**(68)**	(55)
	Reconciliation of movement in fair value of plan assets		
	Opening fair value of plan assets	**58**	48
	Expected return on assets	**5**	7
	Contributions by employer	**7**	4
	Actuarial gains	**2**	5
	Exchange difference on foreign plans	**18**	(5)
	Benefits paid	**(3)**	(1)
	Closing fair value of plan assets	**87**	58
	The major categories of plan assets as a % of total plan assets are:		
	Equity (%)	**80**	84
	Debt instruments (%)	**20**	9
	Other assets (%)	**–**	7
		100	100

		GROUP	
		2007 **R million**	2006 Restated R million
k.(iii)	**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 % 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 2007 are estimated at R2 million (2006: R2 million).		
	Actuarial valuation Actuarial valuations in terms 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 was 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:		
	Discount rate (%)	**4,5**	5,1
	Expected rate of salary increases (%)	**2,0**	2,0
	Future pension increases (%)	**4,5**	3,0

		GROUP	
		2007 **R million**	2006 Restated R million
k.(iii)	**SAA (German) Pension Fund (continued)**		
	The results of the actuarial valuation are as follows:		
	Benefit (liability)/asset		
	Present value of obligation	**(175)**	(122)
	Insurance policy (expected payout value)	**–**	162
	Net (under-insured)/over-insured balance not recognised	**(175)**	40
	Charge to the income statement		
	Current service costs	**(15)**	(2)
	Interest costs	**(8)**	(6)
		(23)	(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 R112 million at the end of March 2007 (2006: R162 million). This policy is taken out exclusively to fund the retirement benefit obligations for SAA employees in Germany when they reach the retirement age of 63.		
	Reconciliation of movement in benefit liability		
	Opening benefit liability	**(122)**	(126)
	Current service cost	**(15)**	(2)
	Interest cost	**(8)**	(6)
	Exchange difference on foreign plans	**(35)**	8
	Benefits paid	**5**	4
	Closing benefit liability	**(175)**	(122)
	Disposal of South African Airways (Pty) Ltd	**175**	–
	Net benefit liability	**–**	(122)
k.(iv)	**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 2007. In terms of IAS 19 *Employee Benefits* the disability benefits should be recognised as part of other long-term employee benefits. The benefit should be measured based on the same principles applicable to a defined benefit fund. The actuarial valuation was performed using the projected unit credit method.		
	The service costs and interest cost for 2008 are expected to amount to R4 million.		

COMPANY 2006 Restated R million	COMPANY 2007 R million			GROUP 2007 R million	GROUP 2006 Restated R million
		k.(iv)	**Flight Deck Crew Disability Benefit Fund (continued)**		
			The principal actuarial assumptions used were as follows:		
			Discount rate (%)	**8,40**	7,75
			Expected rate of salary increases (%)	**7,78**	6,99
			Future pension increases (%)	**5,68**	4,89
			The results of the actuarial valuation are as follows:		
			Closing benefit liability	**(35)**	(35)
			Disposal of South African Airways (Pty) Ltd	**35**	–
			Net benefit liability	**–**	(35)
			Charge to the income statement		
			Current service cost	**(2)**	(4)
			Interest cost	**(2)**	(7)
				(4)	(11)
			Actuarial loss recognised in the statement of recognised income and expenditure	**4**	–
			The cumulative actuarial losses recognised in equity	**4**	–
			Reconciliation of movement in benefit liability		
			Opening benefit liability	**(35)**	(24)
			Current service cost	**(2)**	(4)
			Interest cost	**(2)**	(7)
			Actuarial loss	**4**	–
			Closing benefit liability	**(35)**	(35)
			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.		
		l.	**BORROWINGS**		
–	**–**		Total long-term borrowings at the beginning of the year	**4 807**	–
–	**–**		Raised	**1 786**	–
–	**–**		Repaid	**(1 047)**	–
–	**–**		Foreign exchange movement	**357**	–
–	**–**		Disposal of subsidiary/division	**(5 903)**	–
–	**–**		Transferred from continuing operations – long-term portion (refer note 25)	**–**	4 249
–	**–**		Transferred from continuing operations – short-term portion (refer note 30)	**–**	558
–	**–**			**–**	4 807

COMPANY				GROUP	
2006 Restated R million	**2007** **R million**			**2007** **R million**	2006 Restated R million
		m.	**PROVISIONS**		
–	**17**		Total provisions at the beginning of the year	**493**	–
–	**15**		Provisions made during the year	**92**	–
–	**(7)**		Provisions released/utilised	**(28)**	–
–	**–**		Disposal of subsidiary/division	**(519)**	–
17	**17**		Transferred from continuing operations (refer note 26)	**17**	493
17	**42**			**55**	493
		n.	**DEFERRED TAXATION LIABILITIES**		
–	**–**		Opening balance	**67**	–
–	**–**		Movements for the year	**28**	–
–	**–**		Transferred from continuing operations	**–**	67
–	**–**		Closing balance	**95**	67
64	**160**	**o.**	**TRADE PAYABLES AND ACCRUALS (refer note 29)**	**274**	7 420
–	**–**	**p.**	**CURRENT TAXATION (ASSET)/LIABILITY**	**(8)**	37
–	**–**	**q.**	**BANK OVERDRAFT (refer note 19)**	**–**	7

SUBSIDIARIES	Shares issued Million	Effective holding 2007 %	Effective holding 2006 %	Voting power held 2007 %
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 @		**–**	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**
Marine Growers (Pty) Ltd		**100**	100	**100**
Construction				
Protekon (Pty) Ltd †		**100**	100	**100**
IT procurement				
B2B Africa Holdings (Pty) Ltd †		**100**	100	**100**
Rolling stock and traction				
Transwerk Foundries (Pty) Ltd		**100**	100	**100**
Insurance captive cells				
Spoornet Guard Risk		**100**	100	**100**
Freight Dynamics Guard Risk ®		**100**	100	**100**
Social responsibility				
Transnet Foundation Trust		**100**	100	**100**
Investment holdings				
Newshelf 697 (Pty) Ltd		**100**	100	**100**

* 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		Accumulated impairment and losses	
	2007 R million	2006 R million	**2007 R million**	2006 R million	**2007 R million**	2006 R million	**2007 R million**	2006 R million
	15	15	**114**	(127)	**406**	465	**–**	–
	–	–	**–**	–	**219**	219	**219**	219
	–	–	**–**	–	**–**	–	**–**	–
	58	58	**120**	124	**336**	401	**339**	459
	–	2 726	**(685)**	(44)	**–**	8 226	**–**	9 231
	20	20	**(31)**	12	**69**	60	**49**	58
	–	–	**1**	1	**104**	101	**65**	69
	–	–	**–**	–	**10**	10	**10**	10
	–	–	**–**	–	**–**	–	**–**	–
	–	–	**–**	–	**–**	–	**–**	–
	–	–	**14**	(2)	**(8)**	23	**25**	25
	–	–	**–**	–	**–**	–	**–**	–
	3	–	**(1)**	–	**–**	–	**–**	–
	–	–	**–**	(96)	**–**	–	**–**	–
	–	–	**–**	3	**127**	126	**127**	126
	–	–	**30**	(15)	**85**	99	**21**	42
	3	3	**7**	(1)	**–**	–	**–**	–
	1	1	**2**	(1)	**–**	–	**–**	–
	–	–	**(16)**	31	**–**	–	**–**	–
	–	–	**1 539**	351	**–**	–	**–**	–

SUBSIDIARIES	Shares issued Million	Effective holding 2007 %	2006 %	Voting power held 2007 %
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	**–**
Airchefs International (Pty) Ltd @		**–**	100	**–**
SAA City Centre (Pty) Ltd @		**–**	100	**–**
SAA Technical (Pty) Ltd @		**–**	100	**–**
International Aviation Personnel (Pty) Ltd @		**–**	100	**–**
Air Tanzania Company Ltd (Tanzania) @		**–**	49	**–**
Held within Viamax (Pty) Ltd				
HSA Management Systems (Pty) Ltd ®		**100**	100	**100**
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**

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® 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		Accumulated impairment and losses	
	2007 R million	2006 R million	**2007 R million**	2006 R million	**2007 R million**	2006 R million	**2007 R million**	2006 R million
	–	–	**(2)**	–	**384**	383	**384**	383
	23	23	**8**	(1)	**219**	166	**–**	–
	–	–	**–**	–	**–**	–	**–**	–
	–	–	**–**	–	**–**	–	**–**	–
	123	2 846	**1 100**	235	**1 951**	10 279	**1 239**	10 622
	(36)	(2 762)	**(85)**	160	**(475)**	(8 751)	**(49)**	(9 289)
	87	84	**1 015**	395	**1 476**	1 528	**1 189**	1 333

ASSOCIATES AND JOINT VENTURES*	Principal activity	Effective holding 2007 %	Effective holding 2006 %	Shares at cost 2007 R million	Shares at cost 2006 R million
Associates					
arivia.kom (Pty) Ltd ®	IT service provider	**42**	42	**214**	210
VAE Perway (Pty) Ltd ®	Refurbishment of Perway	**35**	35	**6**	6
Commercial Cold Storage (Ports) (Pty) Ltd[1]	Storage and bondage	**30**	30	**–**	–
Port Shepstone & Alfred County Railway Ltd	Railway operator	**28**	28	**–**	–
Comazar (Pty) Ltd	Transport logistics	**32**	32	**13**	13
V&A Waterfront Holdings (Pty) Ltd @	Property development and management	**–**	26	**–**	424
Mossel Bay Waterfront Development (Pty) Ltd #2	Property development and management	**15**	15	**2**	2
Equity Aviation Services (Pty) Ltd @ XX	Transport logistics	**–**	49	**–**	35
Cape Town Bulk Storage (Pty) Ltd	Port operations	**50**	50	**1**	1
Belldev Properties (Pty) Ltd	Property development and management	**50**	50	**–**	–
AllPort Logistic Terminal (Ghana) †	Port operations	**–**	–	**–**	–
RainProp (Pty) Ltd[3]	Property development and management	**20**	20	**2**	2
Joint ventures					
Transpoint Properties (Pty) Ltd	Telecommunication	**50**	–	**–**	–
				238	693
Investments in associates classified as held-for-sale				**(220)**	(465)
				18	228

Summarised financial information of significant associates	V&A Waterfront Holdings (Pty) Ltd 2007 R million	V&A Waterfront Holdings (Pty) Ltd 2006 R million	arivia.kom (Pty) Ltd 2007 R million	arivia.kom (Pty) Ltd 2006 R million
Financial position				
Assets	**–**	5 049	**691**	797
Liabilities	**–**	2 613	**285**	394
Results of operations				
Revenue	**–**	792	**1 356**	1 480
Profit before taxation	**–**	1 155	**(29)**	37
Income taxation (expense)/credit	**–**	(189)	**12**	(18)
Net profit for the year	**–**	966	**(7)**	19

* Incorporated in the Republic of South Africa, unless stated otherwise
® Associates classified as held-for-sale
† Dormant and in the process of winding up
# Dormant
¥ Total impairment of R141 million (shares at cost: R136 million, post-acquisition reserves: R5 million)
@ Sold
XX Sold during the current year and consequently the loan has been included in other receivables
1 Year ends 30 September
2 Year ends 28 February
3 Year ends 30 June

	Interest of Holding Company indebtedness		Accumulated impairment and losses		Share of post-acquisition reserves		Total	
	2007 R million	2006 R million	**2007 R million**	2006 R million	**2007 R million**	2006 R million	**2007 R million**	2006 R million
	–	–	**141**	139[¥]	**5**	3	**78**	74
	–	–	**–**	–	**17**	17	**23**	23
	1	3	**–**	–	**18**	16	**19**	19
	–	2	**–**	–	**–**	–	**–**	2
	8	8	**20**	22	**–**	–	**1**	(1)
	–	–	**–**	–	**–**	639	**–**	1 063
	–	–	**2**	2	**–**	–	**–**	–
	–	114	**–**	12	**–**	59	**–**	196
	–	–	**–**	–	**3**	3	**4**	4
	–	–	**–**	–	**–**	–	**–**	–
	–	–	**–**	–	**–**	–	**–**	–
	–	–	**–**	–	**(2)**	(2)	**–**	–
	23	–	**–**	–	**–**	–	**23**	–
	32	127	**163**	175	**41**	735	**148**	1 380
	–	(114)	**(141)**	(12)	**(22)**	(715)	**(101)**	(1 282)
	32	13	**22**	163	**19**	20	**47**	98

STANDARDS AND INTERPRETATIONS

At the date of authorisation of the financial statements, the following standards and interpretations were in issue but not yet effective:

	Standards/interpretation	Effective date
Revised IAS 23	*Borrowing costs*	Annual periods commencing on or after 1 January 2009*
IFRS 7	*Financial Instruments: Disclosures* (including amendments to IAS 1 *Presentation of Financial Instruments:* Capital Disclosures)	Annual periods commencing on or after 1 January 2007*
IFRS 8	*Operating Segments*	Annual periods commencing on or after 1 January 2009*
IFRIC 8**	*Scope of IFRS 2*	Annual periods commencing on or after 1 May 2006*
IFRIC 9**	*Reassessment of Embedded Derivatives*	Annual periods commencing on or after 1 June 2006*
IFRIC 10	*Interim Financial Reporting and Impairment*	Annual periods commencing on or after 1 November 2006*
IFRIC 11**	*IFRS 2 Group and Treasury Share Transactions*	Annual periods commencing on or after 1 March 2007*
IFRIC 12**	*Service Concession Arrangements*	Annual periods commencing on or after 1 January 2008*
AC 503**	*Accounting for Black Economic Empowerment (BEE) Transactions*	Annual periods commencing on or after 1 May 2006*

* All applicable standards will be adopted at their effective date or earlier, such as in the case of IAS 23.

** These accounting standards are not applicable to the business of the Group and will therefore have no impact on future financial statements.

The Directors are of the opinion that the application of the relevant standards and interpretations will be as follows:

IFRS 7

The disclosures provided in respect of financial instruments in the financial statements for the year 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 23 Revised

IAS 23 will be early adopted in the financial reporting year ending 31 March 2008.

The Group will capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that commence on or after 1 April 2007. Currently these borrowing costs are expensed. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

The Group's existing accounting policy on borrowing costs will change as a result of the adoption of the revised IAS 23. A preliminary review of qualifying assets for which the acquisition, construction or production commenced on or after 1 April 2007 indicated that amendment to the standard will impact the Group. Directors and management have not quantified the impact of this.

IFRS 8

IFRS 8 will be adopted by the Group for the first time for the financial reporting year ending 31 March 2010.

In terms of this IFRS, segment reporting will be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. Directors and management have not yet assessed the impact of the segmental disclosures.

IFRIC 10

This standard prohibits the subsequent reversal of impairment losses recognised in interim reports relating to goodwill, and investments in equity instruments classified as available-for-sale or financial assets carried at cost because fair value can not be reliably determined. Directors and management have not yet assessed the impact on the financial results.

Current ratio
Current assets divided by current liabilities.

Debt
Interest-bearing borrowings, post-retirement benefit obligations, derivative financial liabilities, less short-term investments and net cash and cash equivalents.

Earnings
Profit from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments and net finance costs plus other income and income from associates.

EBITDA
Earnings before impairment, taxation, depreciation and amortisation.

EBITDA margin
EBITDA expressed as a % of revenue.

Equity
Issued capital, reserves and minority interests.

Gearing
Debt expressed as a % 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 after depreciation and amortisation, divided by net finance costs.

Cash interest cover
Cash generated from operations before working capital changes, divided by net cash finance costs.

Managed assets
Total assets, excluding derivative financial assets, less current liabilities, exclusive of derivative financial liabilities.

Net assets
Total assets less total liabilities.

Profit/(loss)
Profit or loss after taxation and minority interests.

Operating profit
Profit or loss from operations before profit on sale of interest in businesses, impairment of assets, dividends received, fair value adjustments and net finance costs.

Operating profit margin
Operating profit expressed as a % of revenue.

Return on managed assets
Operating profit expressed as a % of managed assets.

Return on average total assets
Operating profit expressed as a % of average total assets.

Return on net assets
Profit before taxation expressed as a % of net assets.

Total debt
Current and non-current liabilities

Total debt-to-equity ratio
Total debt expressed as a ratio to equity.

GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

Transnet adopted an incremental approach to the GRI Sustainability Guidelines, which provides it with direction on reporting principles, content and performance indicators. In embedding the GRI G3 reporting principles it endeavours to ensure that its Annual Report provides a balanced and reasonable representation of its sustainability performance, becomes comparable to those of other value based companies, and addresses issues of concern to its array of stakeholders.

	Transnet sustainability principles	Transnet sustainability principal issues
GRI G3 Disclosure items		
1. Strategy and analysis		
1.1 – 1.2	*Assuring sound accountability and governance*	Board governance Executive management Strategy and transformation Enterprise risk Compliance Business intelligence
2. Organisational profile		
2.1 – 2.8	*Assuring sound accountability and governance*	Executive management Strategy and transformation
3. Report parameters		
Report scope/profile 3.1 – 3.6	*Assuring sound accountability and governance*	Sustainability platform Communication and reporting
Explanation of process 3.7 – 3.11	*Assuring sound accountability and governance*	Sustainability platform Communication and reporting
Reporting boundary 3.12 – 3.15	*Assuring sound accountability and governance*	Sustainability platform Communication and reporting
GRI content index 3.16	*Assuring sound accountability and governance*	Sustainability platform Communication and reporting
Assurance 3.17	*Assuring sound accountability and governance*	Sustainability platform Communication and reporting
4. Governance, commitments and engagement		
Governance 4.1 – 4.10	*Assuring sound accountability and governance*	Board governance Executive management Strategy and transformation Enterprise risk Compliance Business intelligence
Commitments to external initiatives 4.11 – 4.13	*Assuring sound accountability and governance*	Sustainability platform Communication and reporting
Stakeholder engagement 4.14 – 4.17	*Engaging our stakeholders for mutual benefit*	Sustainability platform Communication and reporting
Economic performance indicators		
Economic performance EC1 – EC4	*Achieving returns greater than the cost of capital*	Financial management Operations management
Market presence EC5 – EC7	*Achieving returns greater than the cost of capital*	Supply management BBBEE
Indirect economic impact EC8 – EC9	*Developing world-class infrastructure*	Capital Investment

Page reference where this item is addressed in this Annual Report

	Strategic intent	Transnet Company structure	Consolidated salient features	Consolidated performance indicators	Board of Directors	Executive Committee	Chairman's statement	Group Chief Executive's review	Chief Financial Officer's report	Consolidated value added statement	Corporate governance	Sustainability report	Freight Rail operational report	Rail Engineering operational report	National Ports Authority operational report	Port Terminals operational report	Pipelines operational report	Annual financial statements	GRI Reporting	Inside back cover
	1	3			8	10	12	20	42		50	61	85	97	110	122	133	141		
	1	3					14	20	42											
									42			60							246	
									42			60							246	
									42			60							246	
																			246	
											50							138		
											50	61	85	97	110	122	133	138		
							12	20	42	49	50	60	82	96	108	120	132	138	246	
							12	20			50	62	87	97	111	123	134	138		IBC
			5	6			12	20	42	49		66	81	95	107	119	131	138		
		2					13	20	42			66	84	96	109	120	132			
							12	20	42	49		68	87	99	111	123	134			

	Transnet sustainability principles	Transnet sustainability principal issues
GRI G3 Disclosure items (continued)		
Environmental performance		
EN1 – EN28	*Managing our environment responsibly*	Environmental management Environmental performance
Labour practices and decent work		
Employment LA1 – LA3	*Creating a workplace where our people can excel*	People management Change and transformation Employment equity
Labour/management relations LA4 – LA5	*Creating a workplace where our people can excel*	People management Employee relations
Occupational health and safety LA6 – LA10	*Creating a workplace where our people can excel*	Employee safety Health, employee wellness and HIV/Aids
Training and education LA11 – LA13	*Creating a workplace where our people can excel*	People management Capacity building – Skills development
Diversity and opportunity LA14 –LA15	*Creating a workplace where our people can excel*	People management Change and transformation Employment equity
Human rights		
HR1 – HR10	*Creating a workplace where our people can excel*	People management Employee relations
Society		
Community SO1	*Caring for the communities where we operate*	Corporate social investment
Corruption, public policy and anti-competitive behaviour SO2 – SO6	*Assuring sound accountability and governance*	Ethics Enterprise risk Compliance
Product/service responsibility		
Customer health and safety PR 1 – PR2	*Caring for the communities where we operate*	Community impact and public health and safety
Products/services, marketing communication and customer privacy PR3 – PR9	*Achieving returns greater than the cost of capital*	Marketplace and customer management

Page reference where this item is addressed in this Annual Report

	Strategic intent	Transnet Company structure	Consolidated salient features	Consolidated performance indicators	Board of Directors	Executive Committee	Chairman's statement	Group Chief Executive's review	Chief Financial Officer's report	Consolidated value added statement	Corporate governance	Sustainability report	Freight Rail operational report	Rail Engineering operational report	National Ports Authority operational report	Port Terminals operational report	Pipelines operational report	Annual financial statements	GRI Reporting	Inside back cover
							18	30			56	78	92	104	115	128	136			
							16	32				69	89	101	112	125	135			
							17	33				71	90	102	113	126	135			
							17	28			56	73	90	103	114	127	135			
							16	33				71	90	102	113	126	135			
							17	33				70	89	101	113	125	134			
							16	33				71	90	102	113	126	135			
								39				74	91	103	115	127	136			
								23			55	61	86	98	110	122	133			
							17	28			56	76	91	103	115	127	136			
								20				66	84	96	109	120	132			

ABBREVIATIONS AND ACRONYMS

Aids	Acquired immune deficiency syndrome
AMS 16001	Aids management system
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BBBEE	Broad-based black economic empowerment
BCM	Business continuity management
BEE	Black economic empowerment
BOI	Board of Inquiry
CAPECOR	Cape corridor
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIPS	Chartered Institute of Purchasing and Supply
CoGP	Code of Good Practice
COO	Chief Operating Officer
CRM	Customer relationship management
CSDP	Competitive Supplier Development Programme
CSI	Corporate social investment
DIFR	Disabling injury frequency rate
DME	Department of Minerals and Energy
DoT	Department of Transport
DPE	Department of Public Enterprises
DPP	Detailed procurement policy/procedures
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
EAP	Employee assistance programme
EE	Employment equity
EIA	Environmental impact assessment
EMC	Environmental Monitoring Committee
EME	Emerging Micro Enterprises
EMS	Environmental Management System
EPCM	Engineering Procurement and Construction Management
ERM	Enterprise risk management
FET	Further Education and Training
GAAP	Generally Accepted Accounting Practice
GCE	Group Chief Executive
GDP	Gross domestic product
GFB	General freight business
GRI	Global Reporting Initiative
HIV	Human immunodeficiency virus
HR	Human resources
IALA	International Association of Marine Aids to Navigation and Lighthouse Authorities
IAS	International Accounting Standards
ICT	Information and communication technology
IFRS	International Financial Reporting Standards
IMM	Infrastructure maintenance manual
IPSA	Institute of Purchasing and Supply of South Africa
ISO	International Standards Organisation
ISPS	International Standard Port Facility Security
IT	Information technology
IT&S	Information technology and systems
JBS	Joint Bunker Services
Jipsa	Joint Initiative on Priority Skills Acquisition
KPI	Key performance indicator
LHS	Lighthouse Services
LMP	Lifestyle Management Programme
mt	Million tons
NATCOR	Natal corridor
NCR	Non-conformance Reporting
NEMA	National Environmental Management Act
NERSA	National Energy Regulator of South Africa
NIPP	National Industrial Participation Programme
NMPP	New multi-product pipeline
NOSA	National Occupational Safety Association
NOSCAR	NOSA award – considered the ultimate symbol of excellence
OBC	On-board computers
OCIO	Office of the Chief Information Officer
OEM	Original equipment manufacturer
OHSAS 18001	An Occupational Health and Safety Management System
OHSAS Act	Occupational Health and Safety Act in South Africa
PFMA	Public Finance Management Act
RFID	Radio Frequency Identification
SAP	A business software solution
SARCC	South African Railway Commuter Corporation
SDP	Supplier Development Plan
SHE	Safety, health and environment
SHEQ	Safety, health, environment and quality
SOE	State-owned enterprise
SOP	Standard operating procedure
SPAD	Signals Passed At Danger
SPO	Strategic performance objective
TBI	Transnet Business Intelligence
TEU	Twenty foot equivalent unit
TMP	Talent Management Programme
TSEDI	Transnet Foundation Socio-Economic Development Initiative
TVMF	Transnet Value Measurement Framework
VCT	Voluntary HIV counselling and testing