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REINVENT FOR GROWTH

ANNUAL FINANCIAL STATEMENTS 2023

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REINVENT
FOR GROWTH

The 2023 Integrated Report
is the Company's primary report to all stakeholders.

The 2023 Annual Financial Statements
include reports of the directors and independent auditor.

FORWARD-LOOKING INFORMATION

All references to forward-looking information and targets in the 2023 reports are extracted from the 2022/23 Transnet Corporate Plan and approved by the Board of Directors

FEEDBACK ON THIS REPORT

We welcome feedback on our 2023 Annual Financial Statements. Please provide written feedback to Kilford Gondo.

kilford.gondo@transnet.net

PERFORMANCE HIGHLIGHTS

Revenue increased by **0,6%** to **R68,9 billion**, in line with positive port and pipeline operational performance.

Net operating expenses increased by **2,0%** to **R45,9 billion**, due mainly to the impact of the third-party settlement received in the prior year, and increased energy, maintenance and material costs.

EBITDA decreased by **2,1%** to **R23,0 billion**, with the EBITDA margin decreasing to 33,3%.

Net loss for the year of **R5,7 billion** (2022: R5,0 billion profit).

Capital investment increased by **4,8%** to **R13,9 billion** for the year.

Cash generated from operations after working capital changes decreased by **12,8%** to **R25,4 billion**.

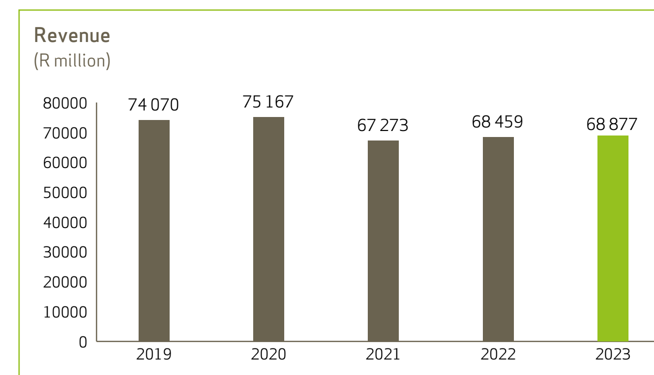
Gearing of **43,6%** and **cash interest cover*** at **2,1 times**.

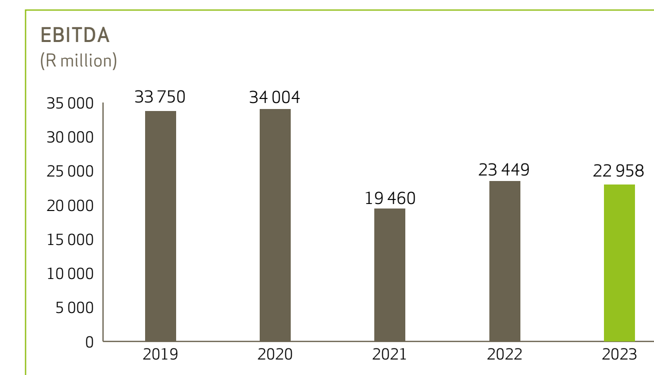
2,5% of **labour costs** spent on **training**, focusing on artisans, engineers, and technicians.

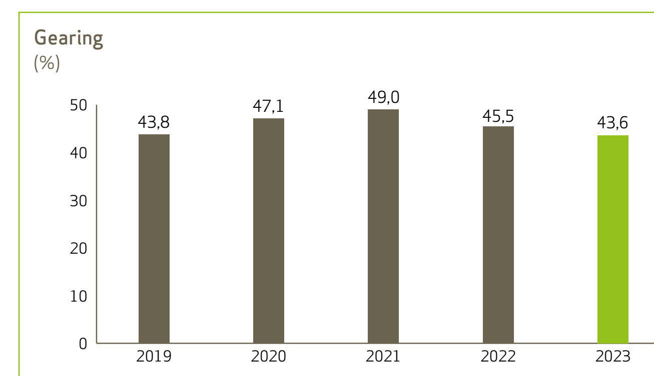
LTIFR performance of **0,66**, which is below the tolerance of **0,75**.

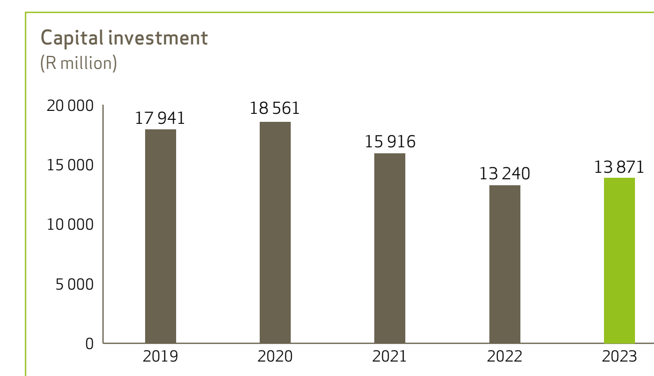
Level 2 B-BBEE certification and spend of **R26,8 billion** or **112,55%**, of total measured procurement spend, as defined by DTIC codes.

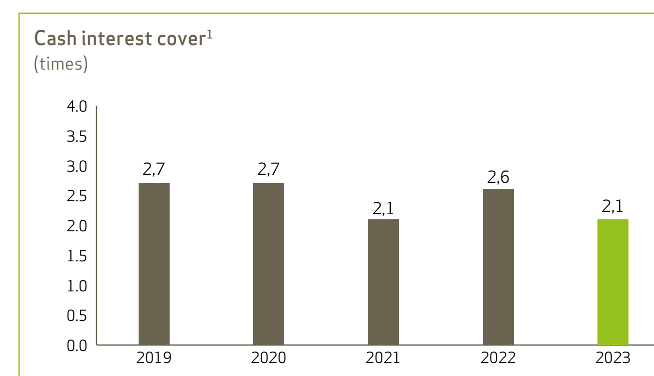
* *Including working capital changes.*

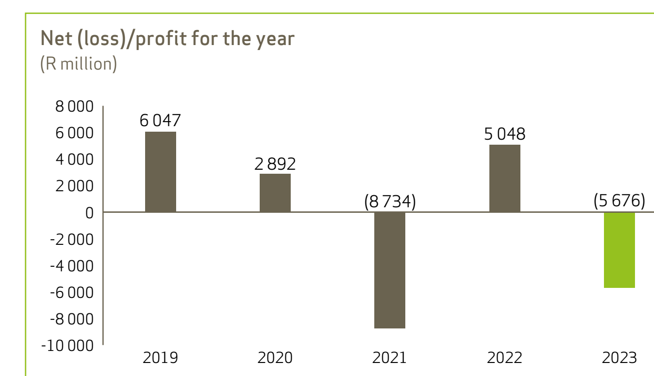












[1] *Including working capital changes.*

Approval of the annual financial statements

for the year ended 31 March 2023

Directors' responsibilities

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

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

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

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

Directors' statements

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

The Audit Committee has evaluated the Company and Group annual financial statements and has recommended their approval to the Board. In preparing the Company and Group annual financial statements, the Company and the Group have complied with International Financial Reporting Standards (IFRS) and the Companies Act. In addition, the Group has complied with the reporting requirements of the PFMA, as set out in the report of the directors on page 26. The Group has used appropriate accounting policies supported by reasonable and prudent judgements and estimates. Judgements and estimates made in the application of IFRS, that have a significant impact on the annual financial statements, are disclosed where applicable in the accounting policies and notes to the annual financial statements.

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

The external auditors, the AGSA, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing (ISA). Their audit report on the annual financial statements, prepared in terms of the Public Audit Act of South Africa, No 25 of 2004, appears on pages 6 to 19.

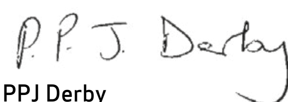
The Board is of the opinion that the Company and the Group have complied with applicable laws and regulations except as disclosed in the report of the directors as set out on page 26.

The Board is of the opinion that these annual financial statements fairly present the financial position of the Company and the Group as at 31 March 2023, and the results of their operations and cash flow information for the year then ended. The annual financial statements have been prepared under the supervision of the Group Chief Executive.

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

Management declares that, to the best of their knowledge, the consolidated and separate annual financial statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of Transnet. The 31 March 2023 annual financial statements and integrated report includes a fair review of the development and performance of the business and the position of Transnet, together with a description of the principal risks and uncertainties that Transnet faces.

A Sangqu
Chairperson



PPJ Derby
Group Chief Executive

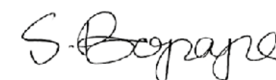
NS Dlamini
Group Chief Financial Officer

30 August 2023
Johannesburg

Group Company Secretary certificate

for the year ended 31 March 2023

I hereby certify that the Company has filed all such returns and notices for the year ended 31 March 2023 with the Companies and Intellectual Property Commission, as required in terms of section 88(2)(e) of the Companies Act, and that all such returns are true, correct and up to date.



S Bopape
Group Company Secretary

30 August 2023
Johannesburg

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

for the year ended 31 March 2023

Report on the audit of the consolidated and separate financial statements

Opinion

I have audited the consolidated and separate financial statements of Transnet SOC Limited (Transnet) and its subsidiaries (the Group) set out on pages 30 to 123, which comprise the consolidated and separate statements of financial position as at 31 March 2023, the consolidated and separate income statements and statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of Transnet and the Group as at 31 March 2023, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act 71 of 2008 (Companies Act).

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How the matter was addressed in the audit
Revaluation of port facilities	
Port facilities are measured at revalued amounts as set out in the accounting policy and in note 9 of the annual financial statements which is consistent with IAS 16 *Property, Plant and Equipment*. The port facilities consist of port infrastructure and operating assets. The Group applies the valuation techniques noted below in revaluing these assets: • Depreciated optimised replacement cost (DORC); and • Discounted cash flows (DCF). **Port infrastructure assets** The DCF methodology was considered by management as the most appropriate method to measure the fair value of port infrastructure assets. The DORC model is used every three years to test the reasonability of fair value determined by applying the DCF model. As disclosed in note 9, the discounted cash flows resulted in fair value of port infrastructure revaluation of R62,9 billion (2022: R61,4 billion) as at 31 March 2023. This resulted in an increase of R2,8 billion (2022: R3,9 billion) in the carrying amount of port infrastructure assets. Management has been consistent in the use of the discounted cash flow method as the most appropriate method to reflect the fair value of port infrastructure assets year on year.	I performed the following procedures, on the significant management assumptions used in the DCF model: **Port infrastructure assets** • I appointed independent and competent valuation experts to assess the integrity of the DCF model, which included assessing the appropriateness of the DCF valuation model used by management, by comparing these to industry norms and acceptable valuation methodologies. I found that this was consistent with industry norms and acceptable valuation methodology. • I assessed the independent valuation experts' competence, experience, qualifications and independence. • I performed the comparison of the current year and prior year DCF calculations to evaluate changes in assumptions and estimates applied. Based on the work performed. I found that management assumptions and estimates applied in the current year were consistent with those of the prior year. • I benchmarked management's significant assumptions related to economic factors such as forecasted GDP rates and inflation rates, used in the calculations against independent third-party data. Based on the work performed, I accepted management's assumptions as appropriate. • I assessed the reasonableness of the projected volumes against the previous year's performance, taking into account management's planned strategic and operational initiatives. I found that management's initiatives are reasonable. • I assessed the unsystematic risk premium for management initiatives not materialising to achieve the projected cash flows in the medium and long term. I found the risk premium to be reasonable and supported by accurate probabilities.
Management's estimates as they relate to future cash flows and the discount rate include significant judgements and assumptions related to the following: • volumes that are based on management's corporate plan; • rebased tariffs that are based on approved tariffs from the regulator; • estimates of sustaining and operating expenditure that is based on management's corporate plan; • inflation rate; • GDP growth rate; • projection of cash flows beyond the foreseeable future; and • prevailing after tax weighted average cost of capital (WACC) rate. There is a high level of estimation and uncertainty regarding the revaluation of the infrastructure assets. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and revaluation adjustments processed. *Port operating assets* The depreciated optimised replacement cost was used as the most appropriate point to reflect the fair value of port operating assets. As disclosed in note 9, the index valuation resulted in a port operating assets revaluation increase of R1,44 billion (2022: R169,3 million decrease) at 31 March 2023. Due to the variables used in the models, which are complex, and subjective with a high degree of judgement, the revaluation of port facilities was assessed to be a key audit matter. There is a high level of estimation and uncertainty regarding the revaluation of the port facilities. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and fair value adjustments processed.	• Transnet's policy is to use the WACC calculation result provided by the regulator. I reviewed the key assumptions (risk free rate, market risk premium, inflation, debt/equity ratios and equity beta) in the regulator model. I satisfied myself that the WACC rates were reasonable after adjustments were made by management. • I assessed the reasonableness of the projected volumes against the previous year's historical volumes to determine if sufficient unsystematic risk was factored in by management. • I assessed the current capacity of the various revenue streams to confirm that expansion project initiatives were incorporated into the cash flow forecasts. • I found that management's valuation was consistent with IFRS 13 *Fair Value Measurement*. Material misstatements were identified and adjustments were processed by management on the revaluation of port facilities in the current year. **Port operating assets** During the third-party valuation for March 2023, the DORC method was used to determine the fair value of property, plant and equipment (PPE) and compared to the DCF model. The DCF method is a generally accepted income-based valuation method and is based on the premise that the value of an asset is the present value of the future economic income to be derived by the owners of the asset. • I assessed the appropriateness of the assumptions used and whether these were in line with industry practice, in order to conclude on the "highest and best use" of the assets. • I assessed the management valuation expert's competence, experience, qualifications and independence. • I evaluated the completeness, accuracy and adequacy of the data used by the valuation expert. Based on the work performed, I was satisfied that all aspects of port operating assets were considered in the valuation. I evaluated the valuation methodology and disclosure, considering the condition of the underlying assets. Based on the work performed, I found that management's valuation was consistent with IFRS 13 *Fair Value Measurement*.

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

for the year ended 31 March 2023

Key audit matter	How the matter was addressed in the audit
Revaluation of rail infrastructure assets	
Rail infrastructure is measured at revalued amounts as set out in the accounting policy and in note 9 of the annual financial statements which is consistent with IAS 16 *Property, Plant and Equipment*. The Group applies the valuation methods noted below in revaluing infrastructure assets: • DORC; and • DCF. The DCF methodology was considered by management as the most appropriate method to measure the fair value of rail infrastructure assets. The DORC model is used every three years to test the reasonability of the fair value determined by applying the DCF model. As disclosed in note 9, the discounted cash flows resulted in fair value of R49,1 billion (2022: R49,9 billion) as at 31 March 2023. This resulted in a revaluation increase of R772 million (2022: R6,6 billion) in the carrying amount of rail infrastructure assets. Management has been consistent in the use of the discounted cash flow method as the most appropriate method to reflect the fair value of rail infrastructure assets year on year. For the rail infrastructure, the discounted cash flow calculation was determined at a cash generating unit (CGU) level by management in order to determine the fair values of the infrastructure assets. The DCF model involves the discounting of future cash flow forecasts applicable to the Transnet Freight Rail division at the prevailing after tax weighted average cost of capital (WACC). This entails the use of key assumptions in determining projected revenues, capital growth, volume growth factor, CPI and other variables in determining the future cash flow forecasts to be discounted. Management's estimates as they relate to future cash flows and the discount rate include significant judgements and assumptions related to: • rail volumes that are based on management's corporate plan; • rebased rail tariffs that are based on management's corporate plan; • estimates of sustaining and operating expenditure that are based on management's corporate plan; • inflation rate; • GDP growth rate; • projection of cash flows beyond the foreseeable future; and • prevailing after tax WACC rate. There is a high level of estimation and uncertainty regarding the revaluation of the rail infrastructure assets. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and revaluation adjustments processed. This area was also significant to the audit due to the materiality of the carrying amount of the assets to which the revaluation adjustments have been allocated. Given the sensitivity of the key inputs, a 1% increase or decrease in the assumptions to determine the cash flows, WACC and terminal growth rate would result in a significant overall change in the DCF value.	I performed the following procedures, on the significant management assumptions used in the DCF model: • I appointed independent and competent valuation experts to assess the integrity of the DCF model, which included assessing the appropriateness of the DCF valuation model used by management, by comparing these to industry norms and acceptable valuation methodologies. I found that this was consistent with industry norms and acceptable valuation methodology. • I assessed the independent valuation experts' competence, experience, qualifications and independence. • I performed the comparison of the current year and prior year DCF calculations to evaluate changes in assumptions and estimates applied. Based on the work performed. I found that management assumptions and estimates applied in the current year were consistent to the prior year. • I benchmarked management's significant assumptions related to economic factors such as forecasted GDP rates and inflation rates, used in the calculations against independent third-party data. Based on the work performed, I accepted management's assumptions as appropriate. • I assessed the reasonableness of the projected volumes against previous year's performance, taking into account management's planned strategic and operational initiatives. I found that management initiatives demonstrated improved asset performance to support the projected volumes in the medium and long term. • I assessed the unsystematic risk premium for management initiatives not materialising to achieve the projected cash flows in the medium and long term. I found the risk premium to be reasonable and supported by accurate probabilities. • I assessed the reasonableness of the rebased tariff increases against the agreed long-term contracts with customers and inflation rates. I found that the rebased tariff increases are reasonable and supported by reliable information. • I assessed the current capacity of rail infrastructure, projected future sustainable capital expenditure to maintain the current capacity and the terminal growth rate to achieve the current network capacity. • I assessed the forecasted growth in volumes to ensure it is limited to current capacity based on currently available rolling stock and rail infrastructure assets. • I recalculated the WACC, taking into account independently obtained data to ensure that the discount rates are within the acceptable range by determining low, medium and high ranges. Transnet opted for a lower range based on current management plans to address operational issues. • I assessed and evaluated management's basis for the assumptions used. For the planning process, I compared to the previous year's corporate plan to the actuals for the same year, in order to determine the reasonableness of future projected periods. This was done to exclude the impact of the KZN floods and October industrial strike by using a year that would indicate sustainable cash flows. • I assessed whether the presentation of and disclosures in the financial statements, including significant accounting policies is appropriate and in accordance with IFRS 13 *Fair value measurement* and IAS 16 *Property, plant and equipment*. Material misstatements were identified and adjustments were processed by management on the revaluation of rail infrastructure in the current year.

Key audit matter	How the matter was addressed in the audit
Valuation of investment property	
Transnet investment property is measured using the fair value model as set out in the accounting policy and in note 10 of the annual financial statements which is consistent with IAS 40 *Investment Property*. The fair value of the Group's investment property was R30,1 billion as at 31 March 2023 (2022: R29,1 billion). There was a significant movement of R1,1 billion relating to fair value adjustments recognised in the income statement. The fair value of the Group's investment properties at 31 March 2023 was arrived at on the basis of valuations carried out at that date by independent external property valuers. The fair value was derived by capitalising the normalised net annual income at market derived capitalisation rates, which are adjusted where appropriate, to reflect the risk profile of each individual property. The key inputs into the fair value model which are subject to significant management estimates include market rentals, market yields, vacancy rates, the credit-worthiness of tenants, as well as discount and capitalisation rates used in the discounted cash flows. Unsubstantiated assumptions and estimates could give rise to a material misstatement. Management is required to make several significant assumptions and judgements in determining the fair value, therefore, I have identified this as a potential risk. There is a high level of estimation and uncertainty regarding the valuation of investment properties. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and fair value adjustments processed.	My audit procedures included the following: • I obtained and documented an understanding of relevant controls in relation to the valuation process. • I appointed independent experts, who discussed and challenged key inputs and assumptions with management experts/valuers and management with reference to independent market data. • I assessed the independent valuation experts' competence, experience, qualifications and independence. • I reviewed the valuation reports for the properties valued by the independent external valuation experts and confirmed that the valuation approach was in accordance with IFRS and suitable for use in determining the fair value for the purpose of the consolidated and separate financial statements. • I confirmed that the valuation approach used by management was appropriate for the determination of fair value in the consolidated and separate financial statements. In addition, I satisfied myself that the techniques used by the independent experts and management have been applied consistently. I agreed a sample of investment property fair values, valued by the independent valuation experts, to the underlying independent valuation expert reports. • I tested the key assumptions used in determining fair value in respect of both the independent experts' valuation and the valuation performed by management as follows: – Confirmed the rental income used in forecasts to underlying tenant contracts for reasonability; and – Assessed the reasonability of the discount and capitalisation rates used to available industry data for similar investment properties. • I assessed the reasonableness and accuracy of the apportionment between owner-occupied properties and those leased to external parties. • I assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 *Fair value measurement*; and IAS 40 *Investment Property*. Material misstatements were identified and adjustments were processed by management on the fair value amount for investment property in the current year.

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

for the year ended 31 March 2023

Key audit matter	How the matter was addressed in the audit
Revaluation of pipeline network assets	
Pipeline networks are measured at revalued amounts as set out in the accounting policy and in note 9 of the annual financial statements which is consistent with IAS 16 *Property, Plant and Equipment*. Formal revaluations are performed every three years by independent professional valuation experts and indices are applied in the intervening periods where appropriate, such that the carrying value does not differ materially from that which would be determined using fair values at the end of the reporting period. The Group applies the following valuation techniques in revaluing its assets: • Depreciated replacement cost (DRC); and • DCF. For the financial year ended 31 March 2023, the revaluation index was used. The depreciated replacement cost was used as the most appropriate methodology to reflect the fair value of the pipeline network assets. The index valuation that was applied to assets in the old pipeline network resulted in a net increase revaluation adjustment of R453 million (2022: R905 million) as at 31 March 2023. The new pipeline network assets remained at carrying value as per the point of range methodology. There is a high level of estimation and uncertainty regarding the valuation of pipeline network assets. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and fair value adjustments processed.	My audit procedures included the following: • I reviewed the WACC calculation policy and noted that the methodology outlined in the policy document is academic and defendable. • I reviewed the market data and calculation for consistency between financial years by taking the 2022 assumptions and placing them in the 2023 model, ie the capital structure assumption and the gearing ratio was unchanged. The model was consistent between 2022 and 2023. • I reviewed the market inputs used to derive the WACC 2023 calculation for reasonability, and these were found to be reasonable. • I reviewed the key assumptions (risk free rate, market risk premium, inflation, debt/equity ratios and equity beta) in the regulator model. The debt/equity ratios differed from Transnet's assumptions. Transnet used the regulator rate to derive the nominal WACC rate for the pipeline network assets and did not adjust it with their assumptions. • I satisfied myself that the WACC rates are reasonable and have been computed correctly, as Transnet's policy is to use the WACC calculation result provided by the regulator. • For the index valuation, I assessed the reasonableness and appropriateness of the indices used, and the completeness and accuracy of the data used by the management expert, and to confirm whether all aspects of pipeline assets had been considered. I did not identify material discrepancies in management judgements and conclusions.
Valuation of derivative financial assets and financial liabilities	
Transnet has foreign-denominated loans and bonds and is therefore exposed to fluctuations in exchange rates and interest rates. To hedge against this risk, Transnet has entered into suitable cross-currency swaps (CCS) with foreign counterparties. Transnet also has domestic loans which exposes it to interest rate risks and to hedge this risk it has entered into interest rate swaps (IRS). Transnet has elected to apply hedge accounting in terms of IFRS 9. The derivative contracts have been designated as the hedging instruments in a cash flow hedging relationship. The derivative financial assets and liabilities as disclosed in note 14 are measured at fair value with gains or losses taken to profit or loss or other comprehensive income. Complex and significant assumptions are used by management in the determination of IFRS 13 initial recognition and subsequent measurement of IFRS 9 financial instruments and fair values. This gives rise to a significant risk that Transnet's financial instruments may be materially misstated as the calculation includes significant assumptions and management judgment. The auditing of the application and accounting for hedging instruments is a key audit matter due to the complexity and use of significant judgements in performing fair valuations. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and fair value adjustments processed.	In evaluating the valuation of derivative financial assets and financial liabilities, my audit procedures performed included the following: • Obtaining an understanding of the Group's processes to estimate the fair values of hedging instruments. • I assessed the competence, capabilities and objectivity of management's appointed actuaries who performed the valuation. • With the assistance of an independent and competent actuarial expert, I assessed management's assumptions, inputs, data, basis-adjusted curves and non-adjusted curves on the valuation of the hypos and instruments and bootstrapping functionality. • I reviewed management's prepared IFRS 9 hedge effectiveness tests as at the valuation date for the instrument and the hypo for the base as well as the six prospective scenarios to assess reasonability and accuracy of the hedge effectiveness of the derivatives. • I assessed the adequacy and completeness of disclosures in the annual financial statements in terms of the IFRS 7 *Financial Instruments Disclosure*. I considered the Group's hedging instruments fair valuations and disclosure thereof to be appropriate.

Key audit matter	How the matter was addressed in the audit
Valuation of decommissioning and environmental liabilities	
Transnet's decommissioning and environmental liabilities, as disclosed in note 25, are valued at R6,2 billion as at 31 March 2023 (2022: R6,1 billion). The provisions are highly judgemental, as they are calculated and recognised using the best estimate of the cost to dismantle and remove the item and rehabilitate the site and may change from year to year taking into account the changes in intended use of the asset, new techniques and know-how in rehabilitating affected sites, estimated risks and uncertainties surrounding the obligation and the time value of money. The assumptions are impacted by future activities and the legislative environment in which the public entity operates. The decommissioning and environmental provisions are also affected by changes in the estimated date on which the item of property, plant and equipment will be dismantled or its removal and restoration of the site may take place. Management is required to make a number of significant assumptions and judgements in determining the fair value as noted above and therefore I have identified this as a potential risk. There is a high level of estimation uncertainty regarding the valuation of decommissioning and environmental liabilities. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the valuation performed and the reasonableness of conclusions reached and fair value adjustments processed.	In evaluating the valuation of decommissioning and environmental liabilities, I obtained and documented an understanding of relevant processes and controls in relation to the provision process. • I appointed an expert to assist in auditing the integrity of the underlying models, discussed and challenged key inputs and assumptions with management expert/valuers and management with reference to independent data. • I assessed the independent expert's competence, experience, qualifications and independence. • I identified the cost assumptions that have the most significant impact on the provisions and tested the appropriateness of these assumptions. I also used our experts to evaluate the reasonableness of the discount rate applied to the provisions. • I verified the completeness of the data by comparing it with work performed on property, plant and equipment, testing specifically on assets where site restoration would be required and specific lines where hazardous material is railed. • I assessed whether decommissioning and environmental provision movements should be expensed or capitalised by understanding the reason for the change and by comparing the movement with the carrying amount of the related asset. • I confirmed that the approach used by management was appropriate to determine the provision in the consolidated and separate financial statements. • I assessed the adequacy of the disclosures made in the financial statements with reference to the disclosure requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. I did not identify material discrepancies in management's judgements and conclusions.

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

for the year ended 31 March 2023

Key audit matter	How the matter was addressed in the audit
Impairment of rolling stock assets	
The determination of impairment of PPE requires judgement and in determining the impairment management has developed a guideline for impairment of different categories of assets including rolling stock and INFRA assets. Transnet views each Operating Division as a cash generating unit (CGU) and for impairment purposes the recoverable amount needs to be determined for the CGU. Further to that, management determined the guidelines for impairment consideration even at an asset category level. Impairment guidelines make significant assumptions on which events and condition indicators of impairment require further assessment. Guidelines further explain reasons for assessing certain conditions at CGU level. The asset class that has a significant amount of impairment at an asset level is rolling stock. The derailments, vandalism and theft or a burn out of rolling stock triggers an assessment for impairment (indicator of impairment). The key inputs in whether an item of rolling stock assets is impaired are whether the damage from derailments or vandalism is major or minor (whether management can repair it in a short space of time or need to completely replace or reconstruct the item) and is subject to significant judgement by management experts. Unsubstantiated assumptions and estimates (whether damage is major or minor) could give rise to a material misstatement. During the year under audit we noted a significant movement in the impairment balance. Transnet Freight Rail has processed an impairment of R3,8 billion on rolling stock compared to the previous year amount of R2,3 billion. The impairment reversal for the current year is R1,2 billion which led to the net impact of R2,6 billion. This movement was significant and therefore required extensive attention. As a result, I have spent significant audit effort, including the time spent by senior members of the audit team, in auditing the impairment assessment performed and the reasonableness of conclusions reached and adjustments processed on the impairment of rolling stock.	In assessing the impairment of rolling stock I performed the following: • I reviewed the impairment guidelines against the fair presentation principles and benchmark with other freight rail companies • I relied on the management expert to assess whether damages and derailments were major or minor as per the guideline developed. • I assessed the independent expert's competence, experience, qualifications and independence. • I verified the completeness of the impairment by tracing the rolling stock with incidents per incidents listing to the impairment reports conducted by management. • I assessed the indicators of impairment relating to rolling stock which included the assessment of the physical conditions of rolling stock to assess whether the assets are operational and/ or have been damaged due to security incidents. Material misstatements were not identified on the impairment of rolling stock assets in the current year.

Emphasis of matters

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

Events after the reporting date

I draw attention to note 40 in the consolidated and separate financial statements, which discloses material non-adjusting subsequent events. This includes a debt service account agreement with a lender, changes in the board of directors and a settlement reached with one of the original equipment manufacturers (OEM).

Other matter

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

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

The annual financial statements of the prior years included details of irregular, fruitless and wasteful expenditure, as required by section 55(2)(b)(ii) and (iii) of the PFMA, and treasury regulation 28.2.1. However, commencing with the prior year end of 31 March 2022, the Minister of Finance per section 92 of the PFMA granted exemption to Transnet from complying with the aforementioned sections of the PFMA for a period of three years ending 31 March 2024.

The effect of this exemption is that irregular, fruitless and wasteful expenditure is no longer included as part of the annual financial statements and is now included under the legislative compliance section in pages 123 to 129 of the integrated report of the entity.

In the current year audit, I requested management to audit the disclosure of irregular, fruitless and wasteful expenditure disclosed in the integrated report through the normal audit process to ensure a risk-based audit approach and to enable transparency and accountability to those charged with governance and oversight by reporting on the observation from my audit in this section of the audit report. I could not obtain sufficient and appropriate audit evidence to conduct information to conduct the audit of the irregular, fruitless and wasteful expenditure as disclosed in the integrated report due to a difference of opinion with management on the nature of the audit engagement to be undertaken from the previous year.

Consequently, I did not audit the disclosure of the irregular, fruitless and wasteful expenditure and I do not express any assurance on the amounts of irregular, fruitless and wasteful expenditure as disclosed in the integrated report.

During the audit of the compliance with applicable legislation as outlined in this report, I have identified material findings in the area of procurement and contract, expenditure management and consequence management. The internal controls implemented by management were not effective as they did not prevent and detect instances of material non-compliance with procurement and contract management prescripts. The instances of the material non-compliance identified further indicate that the irregular expenditure disclosed in the integrated annual report may not be complete due to other instances of non-compliance identified through the audit process which resulted in irregular expenditure.

Responsibilities of the accounting authority for the consolidated and separate financial statements

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

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

Responsibilities of the auditor-general for the audit of the consolidated and separate financial statements

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

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

Report on the audit of the annual performance report

In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected objectives presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.

I selected the following objectives presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected objectives that measure the public entity's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area (KPA)	Page in the report of directors	Purpose
KPA 1: Improve operational efficiencies and reduced safety and security risks	29	Reduce the total cost of logistics as a percentage of transportable GDP; and Effect and accelerate modal shift by maximising the role of rail in the national transport task.
KPA 2: Accelerate strategic initiatives to improve commercial performance	29	Leverage the private sector in the provision of both infrastructure and operations where required.

I evaluated the reported performance information for the selected objectives against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the public entity's planning and delivery on its mandate and objectives.

I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the public entity's mandate and the achievement of its planned objectives;
- the indicators are well defined and verifiable to ensure that they are easy to understand and applied consistently and that I can confirm the methods and processes to be used for measuring achievements;
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated;
- the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents;
- the reported performance information isin the annual performance report in the prescribed manner; and
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over or under achievement of targets.

I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion.

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for the year ended 31 March 2023

The material findings on the performance information of the selected objectives are as follows:

KPA 1: Improve operational efficiencies and reduced safety and security risks

Ship turnaround time: DCT Pier 1

An achievement of 75 hours was reported against a target of less than or equal to 55 hours. I could not determine if the reported achievement was correct, as the processes established to consistently measure and report achievements were inadequate. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Ship turnaround time: DCT Pier 2

An achievement of 93 hours was reported against a target of less than or equal to 53 hours. I could not determine if the reported achievement was correct, as the processes established to consistently measure and report achievements were inadequate. Adequate supporting evidence was also not provided for auditing. Consequently, the reported achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Reduction in security incidents – Transnet Freight Rail

An achievement of 25% was reported against a target of greater than or equal to 10%. The audit evidence obtained indicated that not all security incidents that occurred during the current financial year were recorded. Consequently, the actual reported achievement is overstated and I could not determine the extent of the actual achievement by alternative means.

Other matters

I draw attention to the matters below.

Achievement of planned targets

The annual performance report includes information on reported achievements against planned targets and provides explanations for over and under achievements. This information should be considered in the context of the material findings on the reported performance information.

The public entity plays a key role in delivering services to South Africans as its mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks.

The annual performance report includes the following service delivery achievements against planned targets:

Key indicators not achieved	Planned target	Reported achievement	
KPA 1: Improve operational efficiencies and reduced safety and security risks			
Targets achieved: 22%			
1.1 Export coal (RBCT)	≥ 61,4 mt	48,7 mt	Not achieved
1.2 Export manganese	≥ 15,9 mt	14,1 mt	Not achieved
1.3.1 Wagon cycle time export coal (RBCT)	≤ 64 hours	88 hours	Not achieved
1.4.1 Ship turnaround time: DCT Pier 1	≤ 55 hours	75 hours	Not achieved
1.4.2 Ship turnaround time: DCT Pier 2	≤ 53 hours	93 hours	Not achieved
1.5 Container moves per ship working hour – DCT Pier 1	≥ 48 moves per hour	39 moves per hour	Not achieved
1.6.2 Transnet Pipelines: Reduction in security incidents	≥ 15%	-25,3 %	Not achieved
KPA 2: Accelerate strategic initiatives to improve commercial performance			
Targets achieved: 0%			
2.1 Selection of PSP partner for the Ngqura Container Terminal	31 October 2022	None	Not achieved
2.2 Selection of PSP partner for the Durban Container Terminal Pier 2	31 October 2022	None	Not achieved
2.3 RFP for a partnership in City Deep Terminal issued to the market	31 October 2022	None	Not achieved
2.4 RFP for a partnership in Kaalfontein Terminal issued to the market	31 October 2022	None	Not achieved
2.5 Disposal of non-core assets: disposal of approximately 6 500 iron ore wagons	31 March 2023	None	Not achieved

Overall, there has been a decline in the entity's performance, as the entity did not achieve the majority of their planned performance targets for the period under review. The entity only managed to achieve 26.3% of its annual targets in the current year when compared to 38,6% achieved in the prior year. This represents a decline in performance year-on-year of 12,3%. In comparing the performance year on year, cognisance was taken that there was a change in the key performance areas when comparing the current year' Shareholder's Compact to the prior year's Compact.

The main root causes for non-achievement are attributed to operational challenges due to availability of rolling stock, security incidents, strike action, power outages, customer cancellations and adverse weather conditions and equipment challenges as well as delays in concluding requests for proposals with private partnerships.

Overall, the entity has not achieved on the planned service delivery objectives and this had a direct impact on the entity's mandate of lowering the cost of doing business in South Africa through providing cost effective and efficient logistical solutions, it hampers economic growth, and impedes the entity's ability to effectively compete in the global market. The non-achievement of planned targets further contributes to increased reliance on road transportation, leading to higher costs, road congestion, damage to road infrastructure and negative environmental impacts.

It is critical for the accounting authority to ensure that the current operational challenges that prevent the entity from delivering on its primary objective are addressed through a turnaround plan, which should place significant focus on measurable and time bound action plans and seeks to address the root causes that impede the entity's ability to achieve on its primary objectives.

The accounting authority should evaluate the effectiveness of the existing performance monitoring processes and place emphasis on enhancing the in-year monitoring processes to enable effective progress implementation and tracking of planned targets in a manner that enables timeous implementation of corrective measures to improve performance outcomes.

Material misstatements

I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1 – Improve operational efficiencies and reduced safety and security risks. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the public entity's compliance with legislation.

I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the public entity, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance reports and annual reports

The annual financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework, as required by section 55(1) (b) of the PFMA. Material misstatements on borrowings, property, plant and equipment, non-current assets classified as held for sale, and lease commitments identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

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

Expenditure management

Effective and appropriate steps were not taken to prevent irregular expenditure as disclosed in the legislative compliance section contained in the integrated report, as required by section 51(1)(b) (ii) of the PFMA. The value disclosed in the integrated report may not reflect the full extent of the irregular expenditure incurred. The majority of the irregular expenditure was caused by non-compliance with the entity's procurement processes. Irregular expenditure was identified during the audit process on awards made during the period 1 April 2022 to 31 March 2023. The irregular expenditure disclosed in the integrated annual report may not be complete.

Procurement and contract management

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

I was unable to obtain sufficient appropriate audit evidence that the deviation was in line with the circumstances provided in the SCM policy under which the procurement may occur as required by PFMA instruction note 3 of 2021/22 par. 4.3 and 4.4.

I was unable to obtain sufficient appropriate audit evidence that the deviation process followed in respect of identifying prospective suppliers was in line with the process prescribed in the institution's SCM policy as required by PFMA instruction note no. 3 of 2021/22 par. 4.4.(d).

I was unable to obtain sufficient appropriate audit evidence that some of the contracts were awarded to bidders in an economical manner and/or prices for the goods or services were reasonable as required by PFMA 57(b).

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I was unable to obtain sufficient appropriate audit evidence that some of the contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and Preferential Procurement regulation. Similar non-compliance was also reported in the prior year.

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

I was unable to obtain sufficient appropriate audit evidence that some of the contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by the 2017 Preferential Procurement Regulation 5(1) and (3).

Some of the tenders that failed to achieve the minimum qualifying score for functionality criteria were not disqualified as unacceptable in accordance with 2017 Preferential Procurement Regulation 5(6).

Some of the tenders that achieved the minimum qualifying score for functionality criteria were not evaluated further in accordance with 2017 PPR 5(7).

I was unable to obtain sufficient appropriate audit evidence that some of the contracts and quotations were awarded to bidders based on pre-qualification criteria that were stipulated in the original invitation for bidding and quotations, in contravention of the 2017 Preferential Procurement Regulation 4(1) and 4(2).

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

Consequence management

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

Other information

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

My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.

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

If, based on the work I have performed, I conclude that there is a material misstatement in other information, I am required to report that fact.

I have nothing to report in this regard.

Internal control deficiencies

I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.

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

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

The action plan developed by the leadership to address actual root causes for material findings was not effective as repeat findings were raised during the audit process.

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

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

A lack of adequate review of the underlying records from planning to the reporting phase by management led to the information in the annual performance report not being useful and reliable as the reported performance information could not be verified.

The information technology control environment required improvement as, in some cases, no controls were implemented or were not sufficient to ensure safeguarding of information, that only those that require access to systems and data are granted access, sufficient application system functionality is available to record changes made to how the systems processes transactions and defined process are in place for recovering of systems and data in the event of a disastrous occurrence.

Controls over regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not adequate as material findings were identified in the financial statements and annual performance report submitted for audit.

Material irregularities

In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Contracts for the lease of heavy duty plant and equipment awarded to bidders that did not score the highest points

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

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

- A forensic investigation into the material irregularity was completed on 29 March 2022. It concluded that corrective action should be taken against the implicated officials that contravened the provisions of the PPPFA, but no fraud, theft or breach of fiduciary duty was identified. The forensic report did not address the determination of the loss to the entity as a result of the noncompliance with applicable legislation.
- The accounting authority took disciplinary steps against the implicated and written warning letters issued in September 2022.

The accounting authority's response did not indicate all the required actions to address the material irregularity, as it did not include preventing the financial loss, nor recovery of the losses already suffered by the entity. I notified the accounting authority on 29 August 2023 of my determination that the actions taken have not adequately addressed the material irregularity and requested additional information to enable me to decide on the course of action to take.

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

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

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

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

- The accounting authority took disciplinary steps against the implicated officials through the form of written warning letters issued in September 2022.

The accounting authority's response did not indicate all the required actions to address the material irregularity, as it did not include preventing the financial loss, nor recovery of the losses already suffered by the entity. I notified the accounting authority on 29 August 2023 of my determination that the actions taken have not adequately addressed the material irregularity and requested additional information to enable me to decide on the course of action to take.

Other reports

In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the consolidated and separate financial statements or my findings on the reported performance information or compliance with legislation.

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

At the request of Transnet, limited assurance engagements were performed on compliance of the issue of commercial paper between 1 January 2023 to 31 March 2023 under its ZAR80 000 000 000 domestic medium term note and commercial paper programme with the provisions of the commercial paper notice (Government Notice 2172 published in Government Gazette no. 16167 of 14 December 1994) (the notice) issued by the registrar of banks, as required by paragraph 3(5) (j) of the said notice. A report was issued to Transnet on 19 August 2023 and covered the period 1 January 2023 to 31 March 2023.

At the request of Transnet, an agreed-upon procedures engagement was performed to assess the allocation of Transnet corporate overhead costs to the operating divisions. The report covered the period 1 April 2022 to 31 March 2023 and was issued to Transnet on 31 July 2023.

At the request of Transnet, a reasonable assurance engagement was performed on the Transnet National Ports Authority (TNPA) annual financial statements for the financial year ending 31 March 2023. The objective of the engagement was to report whether the financial statements present fairly, in all material respects, the financial position of TNPA as at 31 March 2023, and their financial performance and cash flows for the year then ended in accordance with IFRS and the requirements of the National Ports Act 12 of 2005. The report was issued to TNPA on 31 August 2023.

Proclamation 11 of 2018 is investigating an allegation of contracting for or procurement of goods and services by Transnet and payment made in respect thereof in a manner that was not fair, equitable, transparent, competitive or cost effective, conducted by or facilitated through improper conduct. The investigation is conducted by the Special Investigating Unit for events that took place between years 2010 to 2018. The investigation is still in progress.

Auditor General

Auditor-General

Pretoria

31 August 2023

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- the auditor-general's responsibility for the audit; and
- the selected legislative requirements for compliance testing.

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

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

Communication with those charged with governance

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

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Public Finance Management Act 1 of 1999 (PFMA)	Section 50(3); 50(3)(a); 50(3)(b) Section 51(1)(a)(ii); 51(1)(a)(iii); 51(1)(a)(iv); 51(1)(b); 51(1)(b)(i); 51(1)(b)(ii); 51(1)(e)(iii) Section 52(b) Section 53(4) Section 54(2)(c); 54(2)(d) Section 55(1)(a); 55(1)(b); 55(1)(c)(i) Section 56 Section 57(b); 57(d) Section 66(3)(a)
Treasury Regulations for departments, trading entities, constitutional institutions and public entities (TR)	Regulation 29.1.1; 29.1.1(a); 29.1.1(c;); 29.2.1; 29.2.2; 29.3.1 Regulation 31.2.5; 31.2.7(a) Regulation 33.1.1; 33.1.3

Legislation	Sections or regulations
Companies Act No. 71 of 2008	Section 30(3)(b)(i); 33(1)(a) Section 45(2); 45(3)(a)(ii); 45(3)(b)(i); 45(3)(b)(ii); 45(4) Section 46(1)(a); 46(1)(b); 46(1)(c) Section 72(4)(a); Section 75(6) Section 86(1); 86(4); Section 88(2)(d) Section 112(2)(a); Section 129(7)
Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA)	Section 34(1)
Companies Regulations	Regulation 30(2); 43(2)(a)
Construction Industry Development Board Act No.38 of 2000 (CIDB)	Section 18(1) Section 22(3)
CIDB Regulations	CIDB regulation 17; 18(1A)1; 25(1); 25 (5) and 25(7A)
PPPFA	Section 1(i); 2.1(a); 2.1(b); 2.1(f)
PPR 2017	Paragraph 4.1; 4.2 Paragraph 5.1; 5.3; 5.6; 5.7 Paragraph 6.1; 6.2; 6.3; 6.5; 6.6; 6.8 Paragraph 7.1; 7.2; 7.3; 7.5; 7.6; 7.8 Paragraph 8.2; 8.5 Paragraph 9.1; 9.2 Paragraph 10.1; 10.2 Paragraph 11.1; 11.2 Paragraph 12.1 and 12.2
PPR 2022	Paragraph 3.1 Paragraph 4.1; 4.2; 4.3; 4.4 Paragraph 5.1; 5.2; 5.3; 5.4
NT SCM Instruction Note 03 2021/22	Paragraph 4.1; 4.2; 4.2 (b); 4.3; 4.4; 4.4 (c);4.4(d); 4.6 Paragraph 5.4
NT SCM Instruction 4A of 2016/17	Paragraph 6
NT SCM Instruction Note 03 2019/20	Paragraph 5.5.1(iv); 5.5.1(x)
NT SCM Instruction Note 11 2020/21	Paragraph 3.1; 3.4 (a); 3.4(b); 3.9: 6.1;6.2;6.7
PFMA SCM instruction 08 of 2022/23	Paragraph 3.2 Paragraph 4.3.2; 4.3.3
Competition Act	Section 4(1)(b)(ii)
NT instruction note 4 of 2015/16	Paragraph 3.4
Second amendment of NTI 05 of 2020/21	Paragraph 4.8; 4.9 ; 5.1 ; 5.3
Erratum NTI 5 of 2020/21	Paragraph 1 Paragraph 2
NT instruction note 5 of 2020/21	Paragraph 5.1 and 5.3

Audit Committee report

for the year ended 31 March 2023

Mandate

The Audit Committee presents this report in terms of the requirements of the PFMA and the related Treasury Regulations, section 94(7)(f) of the Companies Act and in accordance with the King IV Report on Corporate Governance for South Africa 2016, for the financial year ended 31 March 2023.

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

Execution of statutory duties

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

Oversight of financial and non-financial reporting and disclosure

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

Shareholder's Compact and financial performance

Transnet's performance for the year ended 31 March 2023 improved in certain areas compared to the prior year, in spite of various challenges and the current economic climate. These challenges negatively impacted performance and included flooding in KwaZulu-Natal (KZN), power cuts across the country, the industrial strike in October 2022, interest rate hikes, and rising security incidents mainly fuel theft, cable theft and vandalism of infrastructure. The committee reviewed the performance information presented.

Transnet reported a loss of R5,7 billion for the financial year (FY). In this regard the reader is referred to the report of the Group Chief Financial Officer in the integrated report, where detailed disclosure of the financial performance is provided.

Overall performance against the Shareholder's Compact, requires significant improvement, driven mainly by the operational challenges experienced during the reporting period. Accordingly, management's efforts to implement strategic objectives and improve operational efficiencies and thus reduce the cost of doing business was significantly hampered.

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

Irregular expenditure

On 31 March 2022, National Treasury granted Transnet an exemption from the specified provisions of the PFMA and the National Treasury Instruction No 2 of 2019/2020.

The exemption afforded Transnet an opportunity to deal with legacy challenges mainly in the supply chain management (SCM) environment by focusing on the implementation of internal control measures that ensured accurate and complete reporting of irregular and fruitless and wasteful expenditure (IFWE).

It has also allowed Transnet to report its IFWE in the integrated report (IR) instead of the annual financial statements (AFS) effective from the financial years ended 31 March 2022 up to 31 March 2024.

Included in the irregular expenditure (IE) confirmed for the FY2023 is new IE of R556 million (FY2022: R1 117 million, restated) due to repeat non-compliance with various SCM prescripts. This represents a 50,2% reduction of new IE.

Notable progress was made in the 2022/23FY PFMA remedial plan when compared to prior years. The 2022/23FY remedial plan was tabled at the October 2022 Audit Committee meeting and continues to be monitored bi-weekly through the PFMA steering committee chaired jointly by the Group Chief Financial Officer (GCFO) and the Group Chief Procurement Officer (GCPO). Progress is reported monthly to the Group Executive Committee (Exco) and quarterly through the Audit Committee.

The remedial plan includes the following six streams:

1. Supply chain governance: Overhauling the internal control environment and improving the delegation of authority to ensure that delegations are at appropriate levels and are aligned to legislative requirements;
2. Procurement operations: Optimising supply chain processes;
3. Contract management: Implementing effective standard operating procedures;
4. People management: Continuous training of employees on PFMA requirements, revised supply chain internal control system as well as consequence management;
5. Systems: Automating supply chain management processes; and
6. PFMA reporting: Improving reporting capabilities.

Material irregularity

In the 2022/23 FY no material irregularities (MI) were confirmed.

The MI reported in the 2020/21 FY, relating to procurement irregularities identified in Transnet Port Terminals was subjected to a forensic investigation. This was required in order to confirm actual value of financial loss as well as any remedial actions to be taken against any employees that were involved in causing the irregularities and related financial loss. A forensic investigation was conducted by an independent firm and was concluded in February 2022. External audit issued their determination on 29 August 2023 to the accounting authority on their assessment of the forensic report and the actions taken, including consequence management and are awaiting a response.

State capture and investigations

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

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

Internal audit

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

The committee further reviewed and assessed the maturity and impact of combined assurance processes within the organisation, an effort currently co-ordinated by Transnet internal audit. To this end, the collective assurance effort continues to receive the necessary attention by all three lines of assurance. Processes for the integration of assurance effort, including the maturity of the second line Centre of Excellence and optimising third line assurance effort across the business is ongoing.

Under the leadership of the Chief Audit Executive, Ms S Khan, Transnet internal audit continues with the implementation of its operating model which is aligned to the Board strategy which seeks to strengthen governance, risk management and internal controls across the business by unlocking the strategic value of internal audit.

In this regard, Transnet has appointed a new set of professional services firms (Deloitte and Ernst & Young) for the provision of internal audit and advisory services following a competitive, open market procurement process.

This arrangement enables Transnet internal audit management to retain control over the internal audit function and deliver audit effort inhouse whilst leveraging the capacity, skills, extensive knowledge base and technological tools of the service provider firms to enhance audit activities and outcomes to business.

As part of this strategy, the Transnet internal audit function is building audit capacity for Transnet and the economy via its recently launched flagship audit trainee programme. This initiative seeks to train 100 young audit professionals over the next few years.

It should be noted that the internal audit function has been assessed as 'general conforms', as part of the external quality assurance review completed in the current financial year. This result represents the highest level of compliance per the audit standards.

The committee remains of the view that a well performing internal audit function will contribute to strong governance, general control and risk management in the organisation. The committee is satisfied with the progress made in the current financial year in pursuing an effective co-sourced internal audit operating model. Efforts to strengthen the internal audit function will have to be intensified, along with improved alignment with external audit in pursuit of reliance on internal audit work by external audit.

External audit

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

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

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

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

Internal control assessment

The overall Transnet control environment has been assessed as being sub-optimal to enable the achievement of business imperatives, including effective and efficient operations, accurate and complete reporting to internal and external stakeholders as well as compliance to relevant laws and regulations.

The impact of the prior years' challenges continues to be felt in the current financial year, with the control environment being severely constrained due to the absence of funding; adequate resource capacity and an increase in security vulnerabilities.

Notwithstanding efforts made throughout the business to improve the control environment, the effectiveness thereof remains challenged given the extensive time needed to embed and realise benefit from new controls and processes.

The foundation of an effective system of internal control is directly impacted by people, technology, and processes. Although Transnet has in place appropriately designed processes, the ability to attract and retain needed skills remained a challenge in the current financial year. The continued reliance on manual processes and legacy systems to support business activity has impeded improvements in the control environment.

Despite several management interventions, the overall status has not improved year on year and similar to the prior year, operations is the area where significant focus and enhancement is needed.

Management's effort to remediate previously identified weaknesses is commended, as remediation of issues is ongoing, albeit not at the rate needed to reduce continued and protracted risk exposures to business. This is evidenced by the number and aging of overdue open audit findings and those linked to long-term solutions. As such the control environment remains vulnerable until such remedial actions and enhancements are implemented.

Audit Committee report

for the year ended 31 March 2023

Information technology (IT) general controls

The committee monitors the effectiveness of the IT control environment and mitigating controls implemented. The committee noted the efforts made to improve the IT environment including improvements in IT security, the overall business continuity and disaster recovery processes as well as the dependence on third-party outsourcing partners.

Management have made good progress regarding the required IT security upgrades and automation processes, but will continue to monitor and identify opportunities to enhance the IT environment to further support finance and operational environments in the implementation of the Group's strategy.

Going-concern assumption

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

In performing their going-concern assessment, members of the committee considered the robustness of budgets and the 2022/23 business results, cash flow projections, progress made on cash-preservation initiatives to mitigate against the impact of revenue shortfalls as well as the flexibility of the capital investment plan and the well-defined funding plan.

Appointment of debt officer

Mr Andre Pillay (Group Treasurer) was appointed as debt officer during the current financial year. The board of directors have considered and satisfied themselves on the competence, qualification and experience of the debt officer.

Audit Committee meetings

The Audit Committee comprises of independent non-executive directors who are duly elected by the Shareholder Representative at the annual general meeting in line with legislative requirements.

A total of seven meetings were held during the year under review and all quorum requirements were met. The meetings and attendance records of the committee are reflected in the table that follows.

Composition and meeting attendance

Schedule of attendance at meetings from 1 April 2022 to 31 March 2023

Directors	Q1 28/05 2022	Q2 25/07 SP 2022	Q2 22/08 2022	Q3 03/10 SP 2022	Q3 21/11 2022	Q4 20/02 SP 2023	Q4 15/03 2023
Mr LL Von Zeuner[1]	✓	✓	✓	✓	✓	A	-
Ms ME Letlape	✓	✓	✓	✓	✓	✓	✓
Mr AP Ramabulana *(Interim chairperson)*[2]	A	✓	A	✓	✓	✓	✓
Ms UN Fikelepi[3]	-	-	-	-	-	-	✓
Ms G Ramphaka[1]	✓	✓	✓	✓	✓	-	-

SP Special meeting.
✓ Present.
A Apology.
[1] resigned during the financial year.
[2] appointed as the interim Audit Committee chairperson effective 1 March 2023.
[3] appointed as an Audit Committee member, effective 1 March 2023.

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

The Audit Committee chairperson, Louis Von Zeuner resigned during the current financial year from the Transnet Board. The Audit Committee, Board and management would like to thank Louis for his persistent effort, competent guidance and unwavering commitment to the Transnet Board during his tenure and wish him well in his future endeavours. Mr AP Ramabulana was appointed as interim Audit Committee chairperson effective 1 March 2023, with Ms UN Fikelepi also joining the Audit Committee. A new Board was then appointed in July 2023, resulting in the retiring of the previous remaining Board members with the exception of two members.

The new Board includes the chairperson Mr A Sangqu, Ms R Buthelezi, Mr M Debel, Mr B Jiya, Ms L Letsoalo, Dr PS Molefe, Prof FS Mufamadi, Mr D Patel, Ms B Sedupane and Ms MP Zambane. The composition of the new audit committee was approved by the Shareholder Minister in August 2023 and includes, Ms R Buthelezi (interim chairperson), Mr M Debel, Mr B Jiya, Mr D Patel and Ms B Sedupane. The Board has faith in these members fulfilling their responsibilities and ensuring the Committee continues to contribute positively to the achievement of the strategic objectives of Transnet.

Key focus areas of the meetings

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

- Liquidity and funding challenges and the approach to address the associated risks (including that related to the company's loan covenants);
- Debt maturity and adherence to the foreign borrowing limit;
- Overseeing the successful $1 billion drawdown from the GMTN programme;
- Gearing level and structure of the statement of financial position;
- Performance of Operating divisions and the impact on free cash flows;
- Monitoring of financial and operational risks, including the recovery from the impact of the floods in KZN;
- The integrated assurance plan and control environment remain sources of concern;
- IFWE, and the implementation of the related remedial plan and consequence management application throughout the Group;
- Tax and IT activities; and
- Combined assurance implementation.

Main objectives of the committee for 2023/24

- Revenue generation and focus on cost-savings;
- Funding approach and execution of debt redemption;
- Improved liquidity, working capital management and over time lower gearing levels remain a priority;
- Improvement of the internal control environment;
- Oversee along with other board committees the turnaround of SCM/procurement;
- Continuous improvement on regulatory compliance;
- Financial sustainability and delivering on environmental, social and governance (ESG) objectives;
- Implement appropriate measures to support a successful private sector participation (PSP) programme and other liquidity enhancing initiatives; and
- Remediating audit findings.

Recommendation of the annual financial statements and the integrated report

The committee has evaluated the annual financial statements of Transnet and the integrated report for the year ended 31 March 2023 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the Companies Act, the PFMA and IFRS.

Conclusion

The committee is encouraged by another unqualified audit opinion and improvements noted evidencing management's efforts in this regard. There are, however, still areas that require further attention to deliver an absolute positive report given the improvements required in the overall control environment and the continued focus required in the compliance space linked to IFWE.

The committee does have continued confidence in the executive committee and remains committed that the remaining challenges will be addressed accordingly with the continued implementation of the Group's growth and renewal strategy.

We would also like to thank the AGSA for its support during the audit process and their contribution in working with management to the achievement of the reporting timelines that have been realised.

R Buthelezi
Interim chairperson of the Transnet Audit Committee

29 August 2023
Johannesburg

Report of the directors

for the year ended 31 March 2023

Introduction

The directors submit their report, together with the Company and Group annual financial statements, for the year ended 31 March 2023.

Nature of business

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

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

Board of Directors

The composition of the Board of Directors, summary curricula vitae of the directors, key activities and decisions of the Board and its committees for the year ended 31 March 2023 and performance evaluations are set out in the 'abridged governance' section of the integrated report. A separate, unabridged version of the governance report is also available online.

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

Ms GT Ramphaka resigned in December 2022 and Mr LL Von Zeuner resigned in February 2023. In July 2023, the remaining Board members were retired by rotation, with the exception of two members.

The new Board was duly appointed by the Shareholder Minister in July 2023 and consists of the chairperson Mr A Sangqu, Ms R Buthelezi, Mr M Debel, Mr B Jiya, Ms L Letsoalo, Dr PS Molefe, Prof FS Mufamadi, Mr D Patel, Ms B Sedupane and Ms MP Zambane. The new Board has accepted this immense responsibility and after careful consideration of the current reporting year key activities and decisions of the previous Board, approved the annual financial statements in compliance with applicable legislation (refer to page 4). The new Board is committed to working together with management in steering the organisation on its path to reinvention and growth in line with governmental objectives.

Performance for the reporting period

The overall performance of Transnet for the year ended 31 March 2023 was a reflection of the substantial impact that was brought about by the myriad of challenges the entity faced in the financial year. In addition to subdued economic conditions, Transnet had to endure continuous power supply disruptions, the floods in KwaZulu-Natal (KZN), industrial strike action and operational challenges especially affecting its rail business.

The global economic landscape remained volatile throughout the financial year, owing largely to escalating global inflation and the adverse effects of the relentless geopolitical factors such as the war in Ukraine and the lingering effects of COVID-19. The IMF forecast the global economic growth prospects in October 2022 to decrease from 6,0% in 2021, to 3,2% in 2022 and 2,7% in 2023, the weakest growth projections since 2001. The annual growth in real gross domestic product (GDP) for South Africa also decreased to 2,0% in the 2022 calendar year from a strong rebound of 4,9% in 2021. The South African Reserve Bank (SARB) anticipates the economy to grow by 0,2% in 2023, in line with the International Monetary Fund (IMF) forecast of 0,1% growth in 2023.

The financial year started with massive floods in April 2022, that caused significant damage to rail and port infrastructure in the KZN area, forcing Transnet to suspend some of its operations. Rail operations were suspended due to areas affected by washaways and mudslides, whilst the marine operations on the water and land sides were impacted by debris that was caused by the floods. While recovering from the effects of the floods, the company was then hit by industrial action affecting operations for 11 days in October 2022. All these events taking place whilst the company was experiencing shortages in the supply of locomotives and continuous derailments caused by the poor condition of the network, as well as persistent power supply disruptions.

Annual performance was therefore impacted by these conditions resulting in rail volumes declining by 13,6% as the freight business moved 149,5 million tons (mt) from the 173,1mt in financial year 2022 and port container volumes decreasing by 2,3% to 4 034 000 TEUs (2022: 4 131 000 TEUs). In spite of these challenges, automotive and break-bulk volumes improved significantly (+21,0%) and petroleum volumes increased by 1,0% when compared to prior year, in line with the overall positive performance from the port and pipeline businesses which contributed to the overall increase in Group revenue.

Detailed commentary on the performance for the year is included in the integrated report on pages 130 to 136.

Accounting policies

The accounting policies applied in the preparation of the annual financial statements for the year ended 31 March 2023 are in accordance with IFRS and are consistent with those applied in the prior year.

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

Share capital

There has been no change in the authorised share capital of the Company during the year. 5 837 000 000 ordinary shares of R1 each were issued to the shareholder (i.e. the Department of Public Enterprises) in March 2023 resulting in the issued share capital of the Company totalling 18 497 986 310 ordinary shares of R1 each. Further details pertaining to the Company's share capital are contained in note 21 of the annual financial statements.

Dividend

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

In determining the declaration of dividend, the Transnet Board of Directors must consider the environment in which the business operates over the current, short and medium term, taking into account the following:

(a) Shareholder expectations;
(b) Long-term sustainability;
(c) Future funding requirements and reinvestment opportunities;
(d) Solvency and liquidity;
(e) Going concern assessment;
(f) Changes in government and regulatory policies;
(g) Company's cash generation ability; and
(h) Economic environment.

Further, dividend payment is informed by the availability of excess cash from operating activities after allowing for:

(a) Debt servicing (interest and principal);
(b) Funding a sustaining capital investment; and
(c) Financial flexibility.

The Board of Directors have decided not to declare a dividend for the financial year ended 31 March 2023. The Company assessed the following factors in arriving at this decision:

- Based on the 2024 Corporate Plan, Transnet will have no excess cash in the 2023/24 financial year;
- The Company has a significant sustaining capital investment backlog and operational requirements given its strategy;
- The significant debt repayment profile in the short term;
- The funding of strategic priorities in the corporate plan, including but not limited to, enterprise development and social investments; and
- Transnet's current sub-investment grade credit rating that may increase the cost of borrowing.

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

Divisions, subsidiaries and associate companies

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

Revaluation of property, plant and equipment

The Group performs revaluations of its rail infrastructure, port infrastructure and pipeline network assets in accordance with its accounting policy, which requires an independent valuation using the depreciated optimised replacement cost method every three years (with indexation in the intervening years where appropriate), and the discounted cash flow method applied annually.

At 31 March 2023, the rail infrastructure assets were revalued based on the depreciated optimised replacement cost and discounted cash flow methods. An external index valuation of the pipeline network was performed by Ernst and Young, an independent firm of professional valuers, on the basis of the depreciated replacement cost methodology. Port infrastructure was revalued based on the discounted cash flow method, while port operating assets were revalued based on an external index valuation.

Rail infrastructure

The carrying value of rail infrastructure was revalued by R772 million (2022: R6,6 billion revaluation) in line with the discounted cash flow method adopted.

Port facilities

The carrying value of port infrastructure was revalued by R2,8 billion (2022: R3,9 billion revaluation) in line with revenue projections and port operating assets were revalued by R1,44 billion as per the external valuation (2022: R169,3 million revaluation).

Pipeline networks

The carrying value of pipeline networks was revalued through an external valuation and resulted in a R453 million revaluation (2022: R905 million revaluation).

Fair valuation of investment property

The Group determines the fair value of its investment property on an annual basis in accordance with IAS 40 Investment Property. The valuation of the Group's investment properties at 31 March 2023 was performed by qualified external property valuers and was arrived at by capitalising normalised net operating income at market-derived capitalisation rates which are adjusted where appropriate, to reflect the risk profile of each individual property. A full valuation was performed for one-third of the investment property portfolio and a desktop valuation was undertaken for the remainder of the property.

The valuation resulted in a fair value increase in investment property of R1,1 billion (2022: R9,8 billion increase) due mainly to the improvement in the property market over the financial year.

Capital expenditure and commitments

The Company continued to execute its infrastructure investment programme, spending R13,9 billion for the year (2022: R13,2 billion). The capital investment for the year comprised R1,0 billion (2022: R1,9 billion) invested in the expansion of infrastructure and equipment and R12,9 billion (2022: R11,3 billion) invested to maintain capacity in the rail, pipelines and ports divisions.

Further details regarding capital commitments are included in note 30 of the annual financial statements.

Passenger Rail Agency of South Africa (Prasa)

Prasa owed Transnet R220 million at 31 March 2023 (2022: R1,8 billion), of which R1,6 million (2022: R315 million) related to services provided during the year.

In accordance with IFRS 15 *Revenue from Contracts with Customers*, the Group's Freight Rail division previously did not recognise revenue from Prasa at the time services were provided as the collectability requirement was not met due to a history of late and/or non-payment by Prasa.

Following payment received from Prasa in the current year, the Group recognised revenue of R693 million (2022: R505 million) in accordance with IFRS 15, including R423 million (2022: R249 million) which had not been recognised in prior periods.

Considering the above and the set-off agreement concluded in the prior year, the Group has reassessed the recognition of revenue from Prasa and is satisfied that all requirements in IFRS 15 are now met. Therefore, the Group will recognise revenue from Prasa going forward in accordance with IFRS 15.

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

Going concern

In adopting the going concern assumption, the Board reviewed the Group's performance for the year and considered the robustness of budgets and business results, cash flow projections for the 15 months ending 30 June 2024, cost-saving opportunities, the cost of capital projects and related optimisation opportunities and the funding plan.

Further details are provided in note 39 of the annual financial statements.

Funding

As at 31 March 2023, the Company's total borrowings amounted to R130,1 billion (2022: R128,8 billion).

In the period under review, the Group raised funding of R49,1 billion (2022: R13,1 billion) through the issuance of bonds and commercial paper (under the Domestic Medium-Term Note (DMTN) programme) and the execution of bilateral loans without the provision of government guarantees.

Report of the directors

for the year ended 31 March 2023

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

Transnet achieved a cash interest cover ratio (CIC) of 2,1 times for the current reporting year, which resulted in a breach of the CIC loan covenant (below 2,5 times) on 11 loans with a total capital balance of R35 billion. On 21 April 2023, Transnet submitted waiver requests to each of the lenders requesting that they waive the triggered event of default. All the required waivers from affected lenders relating to the CIC loan covenant breach have been received with all matters appropriately closed.

Credit ratings

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

Issuer rating	Moody's*	S&P*
Foreign currency rating	Ba3/Stable outlook	BB-/Negative outlook
Local currency rating	Ba3/Stable outlook	BB-/Negative outlook
National scale rating (NSR) – long and short term	A2.za/P-1.za	za.AA-/za.A-1+
BCA/SACP	b2/Stable outlook	b+/Negative outlook

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

Post-retirement benefit obligations

Benefit funds

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

The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF) are fully funded with actuarial surpluses of R1 054 million (2022: R1 381 million) and R3 871 million (2022: R4 013 million) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules presently do not allow for the distribution of a surplus.

The post-retirement medical benefit obligation is approximately R352 million (2022: R368 million).

SATS pensioners' post-retirement medical benefit obligations

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

Events after the reporting period date

Debt service reserve account

In April 2023, Transnet invested R1,1 billion in a debt service reserve account, which is a restricted foreign cash account due to an arrangement with a lender. The restrictions on this account are outlined in the agreement between the two parties.

Appointment of the new Transnet Board

In July 2023, four members of the previous Board were retired by rotation, with two members remaining. The new Board was thereafter appointed as detailed in the Board of Directors section on page 24.

Settlement with Bombardier Transportation South Africa (Pty) Ltd

On 24 August 2023 Transnet entered into an agreement with Bombardier Transportation South Africa (Pty) Ltd (BT) to settle the dispute pertaining to the review application instituted by Transnet in respect of the 2014 locomotive supply agreement and to provide for the further delivery of the remaining locomotives under the contract.

In terms of the agreement, BT will reimburse Transnet as follows:

- Differential in baseline price of delivered locomotives – R181,6 million;
- Finance costs associated with the additional portion of advance payments– R68,4 million; and
- Variation orders associated with manufacturing and assembly facilities relocation – R218,1 million.

Transnet in turn will release withheld penalties of R92,4 million in favour of BT.

Transnet is positioned to take delivery of the undelivered locomotives over the next 3,5 years.

The financial outcome of the agreement is planned to be assessed by an independent reviewer whilst the review application shall proceed notwithstanding the settlement agreement, albeit in a non-adversarial form. Transnet and BT shall file a joint affidavit motivating for the settlement agreement to be accepted by the High Court as just and equitable relief in the circumstances.

Compliance and legislation

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

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

PFMA compliance

The Public Finance Management Act (PFMA) imposes certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; expenditure that does not comply with operational policies; losses through criminal conduct; and the collection of all revenue.

Transnet received an exemption from disclosing the particulars required by section 55(2)(b)(i) (ii) and (iii) of the PFMA in the annual financial statements for a period of three years, starting from the 2021/22 to 2023/24 financial years. The extent of the exemption has resulted in the disclosure of the confirmed and under assessment irregular, fruitless and wasteful expenditure (IFWE) in the integrated report of the current and one comparative year.

The exemption was granted to allow Transnet to develop and implement internal control measures to ensure accurate and complete reporting of IFWE. The exemption also necessitated the continuous enhancement of the internal controls to ensure accurate and complete reporting of IFWE. The 2023 financial year remediation plan was, as a result, enhanced to include the audit readiness plan to sustainably address the root causes relating to the occurrence, accuracy, and completeness of irregular expenditure, improve the PFMA control environment and to reduce incidences of future transgressions.

Transnet has also put measures in place to ensure that consequence management and remediation actions are continuously being undertaken. Updates on the consequence management taken by Transnet have consistently been included in the quarterly reports that are sent to the National Treasury and the Department of Public Enterprises.

The continuous tracking and enhancement of the PFMA remediation plan remains a key priority for the Company. The lessons learned and challenges experienced have been clearly defined in order to place the organisation in a much better position to timeously implement any outstanding initiatives that drive PFMA compliance across the organisation and in the next financial year that remains of the PFMA exemption period.

Material irregularity

In the 2022/23 FY no material irregularities (MI) were confirmed.

The MI reported in the 2020/21 FY, relating to procurement irregularities identified in Transnet Port Terminals was subjected to a forensic investigation. This was required in order to confirm actual value of financial loss as well as any remedial actions to be taken against any employees that were involved in causing the irregularities and related financial loss. A forensic investigation was conducted by an independent firm and was concluded in February 2022. External audit issued their determination on 29 August 2023 to the accounting authority on their assessment of the forensic report and the actions taken, including consequence management and are awaiting a response.

Economic regulation and regulatory reform

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

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

With approximately 24,4% of Transnet's revenue and 53,9% of EBITDA impacted by economic regulation, it is critical that relationships with regulators are managed proactively and strategically as their decisions could have a significant impact on operating results, capital investment decisions and investor confidence.

Pipelines

On 24 February 2022 the Energy Regulator set the petroleum pipelines system tariffs that will allow Transnet to realise a 9,1% increase in allowable revenue compared to the 2021/22 financial year (FY) tariff period. This translates to an 8,02% tariff increase for the Durban to Alrode route, which will result in an increase of approximately R4,18 cents c/l in the fuel price in the 2022/23FY (from 52,21 c/l to 56,39 c/l).

Any capital expenditure incurred by TPL in furthering its business is allowable by NERSA provided that it can be proved to be prudently incurred. A prudency exercise has been completed by NERSA on the construction costs of the new multi-product pipeline (NMPP). This exercise resulted in NERSA declaring an additional R1,35 billion imprudent to the Transnet R3,02 billion imprudent amount that is included in the regulated asset base (RAB). This has been factored into the 2022/23 petroleum pipelines tariff decision by NERSA.

National Ports Authority

On 1 August 2022 the Transnet National Ports Authority tariff application for the 2023/24FY (the tariff application) was submitted to the Ports Regulator of South Africa (PRSA) as prescribed by the tariff methodology. TNPA requested a revenue requirement for the 2023/24FY translating into a weighted average tariff increase of 9,24%. On 1 December 2022, the Ports Regulator issued the tariff record of decision for the 2023/24FY (inclusive of excessive tariff increase margin credit (ETIMC)) translating into an average tariff adjustment of 3,32%. After due consideration and engagements with the PRSA, the decision of the PRSA has been implemented. The tariff book applicable for the 2023/24FY, has been duly stamped by the PRSA and published on the TNPA website.

Corporatisation and incorporation of Transnet National Ports Authority

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

Freight Rail

On 27 March 2023, Transnet presented its views on the Economic Regulation of Transport (ERT Bill) to the Select Committee on Transport, Public Service and Administration, Public Works, and Infrastructure (Select Committee). Transnet had previously submitted comments to the Parliament Portfolio Committee on Transport. Transnet has requested to make an oral presentation to the Select Committee. To this extent, the Select Committee is still to inform Transnet about the arrangements for such a session. The Company requested harmonised Economic Regulation Methodologies for an integrated network of Rail, Ports and Pipelines to be established in the ERT Bill to enable full economic cost recovery across the network.

Transnet single entity safety permit for the period 2022 to 2025

The Railway Safety Regulator (RSR) issued Transnet with a safety permit valid from 29 August 2022 to 31 August 2025. The safety permit is valid for the following operating divisions:

1. Transnet Freight Rail;
2. Transnet Engineering;
3. Transnet Pipelines;
4. Transnet National Ports Authority; and
5. Transnet Port Terminals.

Railway safety permit fees 2022 financial year determination

In terms of the notice issued on 17 February 2023, the Minister of Transport made a final determination of R120,01 million payable by Transnet for the permit fees in relation to the 2023/24FY. The determination represents a 4,7% increase for the fee charged in the 2022/23FY. The Department of Transport (DoT) together with the RSR developed a new safety fee permit model to calculate the annual safety permit fees to be charged to rail operators. The new safety permit fee model was issued on 17 March 2023 for comment. Transnet will submit its comments to the DoT accordingly.

Judicial proceedings

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

Report of the directors

for the year ended 31 March 2023

1 064 review application

On 9 March 2021, Transnet and the SIU jointly launched an application in the High Court to review and set aside the locomotive supply agreements concluded with four original equipment manufacturers (OEMs): China South Rail (now CRRC E-Loco), China North Rail (now CRRC SA-Rolling Stock), Bombardier Transport (now Alstom) and General Electric (now Wabtec).

The relief sought against each OEM is specific, but includes the set aside of the contracts, for the court to award a just and equitable remedy, which will include Transnet retaining those locomotives in its possession and receiving compensation for overpayments. Limited progress was made in the litigation of the review as the focus was in concluding settlements that could be presented to the court for consideration as the just and equitable remedy. Once the court processes conclude, Transnet will consider the impact of the outcomes on the fair representation of property, plant and equipment.

The locomotive supply agreements with CRRC E-loco and CRRC SA are currently suspended pending the outcome of the court application. The supply agreement with BT was not suspended and deliveries are continuing, with the delivery schedule expected to be completed in the next three years.

Investigation by the Competition Commission

On or around 7 July 2016, the Commissioner initiated two formal complaints against Transnet and its three operating divisions, i.e. Transnet Freight Rail (TFR), Transnet Port Terminals (TPT) and Transnet National Ports Authority (TNPA). In November 2021 the Competition Commission informed Transnet of an additional investigation that is being pursued against Transnet in respect of an anonymous complaint under case number: 2020Oct0035.

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

In August 2022 the Competition Commission presented a settlement proposal to Transnet with respect to the excessive pricing complaint and preliminary findings against TPT. Engagements are underway between Transnet and the Commission with a view to agree on an omnibus settlement of the TPT excessive pricing complaint and the TFR 2016 Competition Commission investigations.

Investigation by the Zondo Judicial Commission of Inquiry

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

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

Special tribunal outcome

Transnet is working closely with the SIU in recovering losses suffered as a result of wrongdoing.

Total SA and Sasol Oil v Transnet Pipelines

Total South Africa (Pty) Limited (Total) and Sasol Oil (Pty) Limited (Sasol) initially brought separate action proceedings against Transnet for contractual damages amounting, cumulatively, to over R1,8 billion. Litigation has been ongoing since 2013 by Total and 2018 by Sasol.

Transnet successfully petitioned for leave to appeal against the judgment by the South Gauteng High Court to the Constitutional Court. The appeal was heard on 16 November 2021 and judgment was reserved. On 22 June 2022, the Constitutional Court ruled that Transnet has (as from 13 September 2020) validly terminated the pipeline agreement with Total and Sasol which regulated the conveyance of crude oil from Durban to the Natref inland refinery at Sasolburg. There has been no determination of the merits of the claimed amount and that the proceedings thus far have centred primarily on the termination of the variation agreement.
The matter has now reverted to the High Court for determination of the remaining separated issues and the trial in the matter has been set down from 2 October to 13 October 2023.

Parallel to the litigation above, Transnet also lodged a complaint with regard to the 'neutrality agreement', in that it was not aligned to the Petroleum Pipelines Act.

On 14 April 2023 NERSA issued its final ruling in relation to the complaint and determined amongst others that in terms of the Constitutional Court's judgement, it compels Sasol Oil and Total SA to pay Transnet the NERSA approved tariff from 13 September 2020.

Shareholder's Compact – performance criteria

The Minister of Public Enterprise approved the 2022/23FY amended Shareholder's Compact on 30 November 2022.

The key performance indicators (KPIs) contained in the Shareholder's Compact as agreed on by the Board and the Shareholder Representative is the performance management framework for the Company. The 2022/23FY performance against the Shareholder's Compact targets are outlined in the tables that follow. The performance information contained therein has been subjected to an independent audit review, and the auditors have reported their findings in the independent auditor's report.

The 2022/23FY performance against the commitments made in the Shareholder's Compact is largely a reflection of the overall challenges affecting the business. The KPIs herein are selected by the Shareholder Representative in consultation with the Board of Directors to drive a strategic focus for Transnet. The conclusion of the compacting process in this regard was driven by placing greater focus on the more strategic areas that enable acceleration of the recovery efforts as well as private sector partnership programmes. The number of indicators were thus reduced from the 44 performance indicators committed in the previous financial year to 19. The key performance areas were also reduced from 5 to 4, albeit they remained in line with the Statement of Strategic Intent.

The company was only able to achieve 26,3% (5 out of 19 KPIs) of all the performance indicators committed in the 2022/23 FY Shareholder's Compact for the period ending March 2023. Performance in key performance area 1 was largely impacted by the disruptions to the operational environment already alluded to above. Notably, the export manganese performance was trending positively until the industrial action happened in October 2022, whilst the export coal line was impacted by the rise in cable theft and unavailability of critical locomotives. Key performance area 2 was impacted by the industrial action that added to the complexity of the transactions outlined therein. Key performance areas 3 and 4 are as a direct result of operational performance, in spite of the Board and managements' implementation of several initiatives to maintain financial ratios.

Key performance area 1: Improve operational efficiencies and reduced safety and security risks

Key performance indicator		Unit of measurement	2023 target	2023 actual
Ramp up volumes in critical/profitable flows				
Export coal (RBCT)		mt	≥61,4	**48,7**
Manganese		mt	≥15,9	**14,1**
Improve operational efficiencies				
Wagon cycle time	Export coal (RBCT)	Hours	≤64	**88**
Ship turnaround time	DCT Pier 1	Hours	≤55	**75**
	DCT Pier 2	Hours	≤53	**93**
Container moves per ship working hour – DCT Pier 1		Moves per hour	≥48	**39**
Prevent and reduce safety and security incidents				
Reduction in security incidents	Transnet Freight Rail	%	≥10	**25**
	Transnet Pipelines	%	≥15	**(25,3)**
Loss time injury frequency rate (LTIFR)		Ratio	≤0,75	**0,66**

Key performance area 2: Accelerate strategic initiatives to improve commercial performance

Key performance indicator	Unit of measurement	2023 target	2023 actual
Priority transaction concluded			
Selection of PSP partner for the Ngqura Container Terminal	Date	31 October 2022	**Not achieved.** The partner selection process was delayed due to the unforeseen industrial action in October 2022 that led to the extension of the closing date for the RFP. This process will however be concluded early in the 2023/24FY.
Selection of PSP partner for the Durban Container Terminal Pier 2	Date	31 October 2022	**Not achieved.** The partner selection process was delayed due to the unforeseen industrial action in October 2022 that led to the extension of the closing date for the RFP. This process will however be concluded early in the 2023/24FY.
RFP for a partnership in City Deep Terminal issued to the market	Date	31 October 2022	**Not achieved.** Upon finalisation of the business case, this transaction was integrated as part of the broader container corridor operating lease, which is currently at a request for qualification (RFQ) stage.
RFP for a partnership in Kaalfontein Terminal issued to the market	Date	31 October 2022	**Not achieved.** Upon finalisation of the business case, this transaction was integrated as part of the broader container corridor operating lease, which is currently at a request for qualification (RFQ) stage.
Disposal of non-core assets			
Disposal of approximately 6 500 iron ore wagons	Date	31 March 2023	**Not achieved.** The initial transaction was carried within the specified timelines and confined to iron ore customers, however, there was no response received. Transnet reassessed the transaction and opened it to the broader market as a wagon sale and leaseback of wagons, which should be concluded early in the new financial year.

Key performance area 3: Improved performance in key financial ratios

Key performance indicator	Unit of measurement	2023 target	2023 actual
Operating ratio	%	58,5	**66,7**
Cash interest cover (CIC)	Times	≥2,5	**2,1**
Gearing	%	≤50	**43.6**

Key Performance Area 4: Enable socio-economic benefits

Key performance indicator	Unit of measurement	2023 target	2023 actual
Number of trainees	Number	≥450	**452**
Enterprise and supplier development	% of NPAT	≥3	**7,98**

Remuneration report

Details of director's remuneration are included in note 38 of the annual financial statements. A detailed remuneration report is included in the integrated report, on pages 116 to 119.

Accounting policies

for the year ended 31 March 2023

The consolidated financial statements for the year ended 31 March 2023 comprise the Company and its subsidiaries (the Group) and the Group's interest in associates and joint ventures. The consolidated financial statements were authorised for issue by the Board of Directors on 30 August 2023.

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

Paragraph 11 provides that "In assessing whether an entity shall apply IFRS Standards, it considers whether it meets one of the following criteria:

(a) the entity is a financial institution;
(b) the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or
(c) its operations are such that they are:
  (i) commercial in nature; and
  (ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government."

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

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

Statement of compliance

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

Critical judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of equity, assets and liabilities, revenue and expenses. The estimates and underlying assumptions are based on historical experience, independent experts' advice and other factors that are considered to be reasonable under the circumstances. Actual results may differ from estimates. Judgements, estimates and assumptions that have a significant effect on the financial statements are disclosed in the relevant notes to the financial statements.

Basis of preparation

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

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

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

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- *Level 1* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- *Level 2* inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- *Level 3* inputs are unobservable inputs for the asset or liability.

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

Basis of consolidation

Subsidiaries

Subsidiaries (including structured entities) are entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements include the results of subsidiaries from the effective date of acquisition to the effective date of disposal.

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

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

Investments in equity accounted investees

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

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

Associates

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

Joint ventures

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

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

Separate financial statements

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

Revenue

Revenue from contracts with customers

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

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

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

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

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

The Group applies the following practical exemption in IFRS 15:

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

The Group generates revenue from the following principal activities:

Freight Rail

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

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

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

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

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

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

Engineering

Engineering generates revenue from the following services:

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

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

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

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

Accounting policies

for the year ended 31 March 2023

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

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

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

National Ports Authority

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

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

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

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

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

Port Terminals

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

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

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

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

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

Pipelines

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

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

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

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

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

Other revenue

Lease income

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

Other income

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

Where the grant relates to an expense item, it is recognised as income in profit or loss over the periods necessary to match th grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset on a straight-line basis.

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

Finance income and finance costs

The Group's finance income and finance costs comprise:

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

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

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

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

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

Borrowing costs

Borrowing costs comprise interest expense, foreign exchange gains and losses, to the extent that they are regarded as an adjustment to the interest expense, and hedge accounting adjustments where applicable.

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset when; (a) it incurs expenditures on the asset, (b) it incurs borrowing costs, and (c) the activities necessary to prepare the asset for its intended use or sale are in progress. Capitalisation is suspended when active development of the qualifying assets is suspended for an extended period. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. The Group defines a qualifying asset as one that necessarily takes more than six months to get ready for its intended use.

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

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

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

Foreign currency transactions

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

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

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

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

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

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

Tax

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

Current tax

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

Deferred tax

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

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

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

Accounting policies

for the year ended 31 March 2023

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

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

Land

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

Assets in respect of which no taxation allowances are granted

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

Assets (other than land) carried at cost

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

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

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

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

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

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

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

Investment property (other than land) carried at fair value

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

Property, plant and equipment

Recognition and initial measurement

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

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

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

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

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

Subsequent costs

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

Costs of major repairs and overhauls of property, plant and equipment are recognised as separate components of the asset if the recognition criteria are met. The carrying amount of components that are replaced is derecognised.

Assets measured using the revaluation model

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

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

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

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

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

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

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life, or the lease term, if shorter, of each item or component of an item of property, plant and equipment, unless it is capitalised as part of the cost of another asset such as inventories or assets under construction in accordance with the applicable accounting standard. Land (excluding land improvements) and capital work-in-progress. are not depreciated.

Major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, if shorter. Depreciation commences when the asset is available for use. Property, plant and equipment are depreciated over the following periods:

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

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

Derecognition

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

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

Investment property

Recognition and measurement

Investment property is land or a building or a portion thereof held by the Group to earn rentals and/or for capital appreciation, including properties under construction for such purposes. Investment property is initially measured at cost. Subsequent to initial recognition, investment property is measured at fair value as determined at each reporting date. Gains and losses arising from changes in the fair value, after deducting the straight-line rental income accrual (deferral), are recognised in profit or loss in the period in which they arise.

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

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

Accounting policies

for the year ended 31 March 2023

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

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

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

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

Valuation

For valuation purposes the Group applies the income method which entails the capitalisation of the normalised net annual income from the property to determine the fair value. Vacant land held for capital appreciation or future development is valued in terms of the comparison method which takes into consideration the market prices of similar recently sold properties. Where neither the capitalisation rates nor comparable selling prices are available for a property, the depreciated replacement cost method is applied.

Full valuations by an external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued are obtained on a rotational basis, ensuring that at least one third (1/3) of the investment property portfolio is valued by an external independent valuer each year, and all properties in the portfolio are valued by an external independent valuer at least once in a three-year cycle. The directors value the remaining properties annually based on desktop valuations performed on a similar basis by Transnet's qualified internal valuers.

Derecognition

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

Intangible assets

Software and licences

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

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

Research and development

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

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

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

Servitudes

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

Amortisation

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

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

Asset class	Years
Software	3 – 5
Licences	Licence period

Derecognition

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

Impairment of non-financial assets

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

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

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

Calculation of recoverable amount

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

Reversal of impairment

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

Financial instruments

Recognition and initial measurement

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

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

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

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

Classification and subsequent measurement

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

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL on initial recognition:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal plus interest on the principal amount outstanding.

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

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

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated at FVTPL on initial recognition:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal plus interest on the principal amount outstanding.

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

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

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

Accounting policies

for the year ended 31 March 2023

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level as this best reflects the way the business is managed, and the information provided to management; namely the Group EXCO. The Group considers the following sources of information in making the assessment:

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

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

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. The Group also considers the following:

- Contingent events that could change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

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

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

Subsequent measurement and gains and losses

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

Financial liabilities: classification, subsequent measurement and gains and losses

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

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

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

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

Impairment of financial assets

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

In applying the forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2).

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

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

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

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

Trade and lease receivables and contract assets

The Group applies the simplified approach in IFRS 9 in measuring expected credit losses which uses a lifetime ECLs allowance for all trade and lease receivables and contract assets. To measure the ECLs; trade and lease receivables and contract assets are grouped based on shared credit risk characteristics and the days past due.

The contract assets relate to unbilled work-in-progress and have substantially the same credit risk characteristics as the trade receivables for the same types of contracts. The Group therefore applies the same probability of default rates for trade receivables and the related contract assets.

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

Short-term deposits and bank balances

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

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

Significant increase in credit risk

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

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

Event of default

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

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

Accounting policies

for the year ended 31 March 2023

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

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

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

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

For lease receivables, the cash flows used in determining the expected credit losses are consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 *Leases*.

Expected credit losses are calculated on the outstanding credit balances excluding value added tax. (refer note 36 for further details on the ECLs).

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

Derecognition

Financial assets

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

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

Write-off

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

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

Financial liabilities

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

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

Derivative financial instruments and hedge accounting

Derivative financial instruments

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

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

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

Hedge accounting

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

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

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

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

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

Discontinuation of hedge accounting

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

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

Offsetting

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

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

Share capital

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

Inventories

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

Cost is determined as follows:

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

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

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

Non-current assets held-for-sale

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

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

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Impairment losses on initial or subsequent write-down to fair value less costs to sell and gains on subsequent re-measurement are recognised in profit or loss. A gain on subsequent increase in fair value less costs to sell may not exceed the cumulative impairment losses previously recognised on the asset. Assets measured at fair value in accordance with IAS 40 Investment Property and IFRS 9 Financial Instruments continue to be accounted for at fair value while classified as non-current assets held-for-sale with gains and losses recognised in accordance with the relevant standard.

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

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

Employee benefits

The Group operates five defined benefit plans and a defined contribution plan. The assets of the defined contribution plan and the two funded defined benefit plans are held separately from the Group and are administered by the fund's trustees.

Defined contribution plan

The Transnet Retirement Fund is a defined contribution fund, and all employees of the Group are eligible members of the fund. The Group's contributions to the defined contribution fund are recognised as an expense in profit or loss in the period in which the employees render the related service.

Defined benefit plans

The Group has five post-retirement defined benefit plans; namely the Transport Pension Fund: Transnet Sub-fund, the Transnet Second Defined Benefit Fund, the Top Management Pensions plan, the Workmen's Compensation Act Pensioners' plan, and the Post-retirement Medical Benefits plan. The Transport Pension Fund: Transnet Sub-fund and the Transnet Second Defined Benefit Fund are fully funded while the other defined benefit plans are unfunded.

The defined benefit plans are actuarially valued for accounting purposes by professional independent consulting actuaries on an annual basis. The benefit costs and net defined benefit liability (asset) under each plan are determined separately using the projected unit credit method.

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

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

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

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

Short-term and long-term benefits

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

The Group's obligation in respect of long-term service benefits, other than pension plans and post-retirement medical benefits is recognised in profit or loss in the period in which the employee renders the related service. The obligation is measured taking into account the probability that payment will be required and the time value of money.

Termination benefits

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

Leases

Group as a lessee

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the Group at the end of the lease term or the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's estimated useful life. The estimated useful life of the right-of-use assets is determined on the same basis as property, plant and equipment owned by the Group. The right-of-use asset is adjusted for impairment losses, if any, and for certain re-measurements of the lease liability, where applicable.

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

Lease payments included in the measurement of the lease liability comprise the following:

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

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

Re-measurement of lease liability

The lease liability is re-measured by discounting the remaining lease payments using a revised discount rate if:

- There is a change in the lease term; or
- If the Group changes its assessment of whether it will exercise an option to purchase the underlying asset.

The lease liability is re-measured by discounting the remaining lease payments using the original discount rate if there is a change in:

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

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

Lease modifications

Modifications to the lease are accounted for as a separate lease if they:

- Increase the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Short-term leases and leases of low-value assets

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

Variable lease expense

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

De-recognition

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

Presentation

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

Group as a lessor

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

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

Finance leases

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

Accounting policies

for the year ended 31 March 2023

Operating leases

Assets leased to third parties under operating leases are included in property, plant and equipment or investment property. Lease income, net of any incentives given to the lessee, is recognised in profit or loss on a straight-line basis over the lease term.

Provisions and contingencies

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

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

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

Decommissioning liabilities

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

The amount recognised as a provision is the best estimate of the cost to dismantle and remove the item and rehabilitate the site and may change from year to year taking into account the changes in intended use of the asset, new techniques and knowhow in rehabilitating affected sites, estimated risks and uncertainties surrounding the obligation and the time value of money. These estimates are reviewed at least annually.

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

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

For assets carried under the revaluation model, changes in the provision are accounted for as follows:

- A decrease in the decommissioning liability is recognised in other comprehensive income and increases the revaluation surplus within equity, except that it is recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously is recognised in profit or loss; and
- An increase in the decommissioning liability is recognised in profit or loss, except that it is recognised in other comprehensive income and reduces the revaluation surplus within equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Environmental liabilities

The Group recognises a provision for environmental rehabilitation costs in accordance with its environmental policy and applicable legislation when the Group has a present obligation, legal or constructive, as a result of a past event and a reliable estimate can be made of the amount of the obligation.

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

A number of factors are considered in estimating the amount of the obligation, including:

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

The provision is initially recognised as an expense in profit or loss, unless it satisfies the requirements for capitalisation as an asset, and is reviewed at least annually. Subsequent changes to the provision are recognised prospectively as a change in accounting estimate.

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

Onerous contracts

A provision for onerous contracts is recognised when the unavoidable costs of meeting the Group's obligations under a contract exceed the economic benefits expected to be received under the contract. The provision is measured at the present value of the lower of the expected cost of exiting the contract and the expected net cost of continuing with the contract, which is determined based on costs that relate directly to fulfilling the Group's obligation under the contract.

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

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

Contingent liabilities

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

Contingent assets

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

Financial guarantee contracts

The Group recognises financial guarantee contracts initially at fair value. Subsequently they are measured at the higher of:

- The amount of loss allowance determined in accordance with IFRS 9 *Financial Instruments*; and
- The amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

Legal claims

Legal claims comprise third-party claims and customer claims, including warranty claims. A provision for legal claims is recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation taking into account legal opinion and the risk and uncertainties surrounding the claim.

Compensation receivable

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

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

Segment information disclosure

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

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

Related party transactions

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

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

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

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

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

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

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

Financial reporting standards and interpretations issued but not yet effective

The following new or revised IFRSs, amendments and interpretations, which are applicable to the Group were not yet effective for the year ended 31 March 2023 and were not applied in preparing these financial statements. Transnet will not be early adopting any of the standards below.

Standard or interpretation	Detail	Effective date
IAS 1 (amendments)	**Presentation of financial statements** *Classification of liabilities as current and non-current* The amendment clarifies that: • the classification of liabilities as current or non-current should be based on the rights that are in existence at the end of the reporting period; • classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and • settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendment affects only the presentation of liabilities in the statement of financial position – not the amount or timing of recognition of any asset, liability, income, expenses or the information that entities disclose about those items. The amendment will be applied retrospectively and will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2024.
	Classification of liabilities with covenants The amendment improves the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants. The amendment clarifies that only covenants which an entity is required to comply with on or before the reporting date affect the classification of a liability as current or non-current and provides guidance on how an entity should disclose information in the notes to help users understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting date. The amendment will be applied retrospectively and will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2024.
	Disclosure of accounting policies The amendment requires entities to disclose their material accounting policies rather than their significant accounting policies and provides additional guidance on how an entity identifies material accounting policy information with examples of when accounting policy information is likely to be material. The amendment will be applied prospectively and will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2023.
IAS 7 IFRS 7 (amendment)	**Statement of cash flows and financial instruments: disclosures** *Supplier finance arrangements* Supplier finance arrangements are often referred to as supply chain finance, trade payables finance or reverse factoring arrangements. The amendments supplement requirements already in IFRS accounting standards and require a company to disclose: • the terms and conditions; • the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities sit on the statement of financial position; • ranges of payment due dates; and • liquidity risk information. The amendments will be applied prospectively and are not expected to have a material effect on the Group's financial statements.	*Annual periods beginning on or after 1 January 2024.*

Standard or interpretation	Detail	Effective date
IAS 8 (amendment)	**Accounting policies, changes in accounting estimates and errors** *Definition of accounting estimates* The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimates. Under the new definition, accounting estimates are *"monetary amounts in financial statements that are subject to measurement uncertainty"*. The requirements for recognising the effect of a change in accounting estimates prospectively remain unchanged. The amendment will be applied prospectively and will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2023.
IAS 12 (amendment)	**Income taxes** *Deferred tax related to assets and liabilities arising from a single transaction* The amendment clarifies how entities should account for deferred tax on transactions such as leases and decommissioning obligations. The amendments narrowed the scope of the recognition exemption in paragraphs 15(b) and 24 of IAS 12 (recognition exemption) so that it does not apply to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendment will be applied retrospectively and will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2023.
	International tax reform – Pillar Two model rules The amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The OECD published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. More than 135 countries and jurisdictions representing more than 90% of global GDP have agreed to the Pillar Two model rules. The amendments will introduce: • a temporary exception– to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules. This will help to ensure consistency in the financial statements while easing into the implementation of the rules; and • targeted disclosure requirements – to help investors better understand a company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect. The temporary exception, and the requirement to disclose that the entity has applied the exception are applicable immediately upon issuance of the amendments and retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments will not have a material effect on the Group's financial statements.	Immediately upon issuance of the amendments.
IAS 21 (amendment)	**The effects of changes in foreign exchange rates** The amendments will require companies to apply a consistent approach in assessing whether a currency can be exchanged into another currency and, when it cannot, in determining the exchange rate to use and the disclosures to provide. The amendments will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2025.
IAS 28 and IFRS 10 (amendment)	**Consolidated financial statements and investments in associates and joint ventures** *Sale or contribution of assets between an investor and its associate or joint venture* The amendment addresses the conflict between the requirements in IFRS 10 and IAS 28 when accounting for the sale or contribution of assets between an investor and its associate or joint venture. The amendment will be applied prospectively and will not have a material effect on the Group's financial statements.	The effective date of the amendments has been deferred indefinitely until further notice.

Standard or interpretation	Detail	Effective date
IFRS 16 (amendment)	**Leases** *Lease liability in a sale and leaseback transaction* The amendment requires a seller-lessee in a sale and leaseback transaction to determine lease payments or revised lease payments in a way that the seller-lessee would not recognise any profit or loss relating to the right-of-use asset retained by the seller-lessee. The new requirement does not prevent the seller-lessee from recognising any profit or loss relating to the partial or full termination of a lease. The amendment will be applied retrospectively to sale and leaseback transactions entered after the date of initial application of IFRS 16 and will not have a material effect on the Group's financial statements.	Annual periods beginning on or after 1 January 2024.
	Annual improvements to IFRS Standards 2018-2020 cycle Illustrative examples to IFRS 16 lease incentives The amendment removed the illustration of the reimbursement of leasehold improvements where the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16 was not clear enough. The amendment only relates to an illustrative example (non-obligatory part of the IFRS) and will not have a material effect on the Group's financial statements.	No effective date.

Annual financial statements
Accounting policies

The financial reporting standards, amendments or interpretations listed below are currently not applicable to the Group and will have no impact on the Group's financial statements:

Standard or interpretation	Detail	Effective date
IFRS 4 (amendment)	**Insurance contracts** *IFRS 9 temporary exemption* The amendment to IFRS 4 enables an insurer applying the temporary exemption from IFRS 9 to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform.	Annual periods beginning on or after 1 January 2023.
IFRS 17 (new)	**Insurance contracts** IFRS 17 creates a single accounting model for all insurance contracts under IFRS. The standard requires an entity to: • measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts; • reflect the time value of money in estimated payments required to settle incurred claims; • measure insurance contracts based only on the obligations created by the contracts; and • recognise profits as an insurance service is delivered, rather than on receipt of premiums. This standard replaces IFRS 4 *Insurance contracts*.	Annual periods beginning on or after 1 January 2023.

Income statements

for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Notes	Group 2023 R million	Group 2022 R million
68 459	68 877	Revenue	1	68 877	68 459
(45 010)	(45 919)	Net operating expenses excluding depreciation, derecognition and amortisation	2	(45 919)	(45 010)
23 449	22 958	**Profit from operations before depreciation, derecognition, amortisation and items listed below**		22 958	23 449
(14 847)	(16 098)	Depreciation, derecognition and amortisation	3	(16 098)	(14 847)
8 602	6 860	**Profit from operations before the items listed below**	4.1	6 860	8 602
(415)	885	Reversal of impairment/(impairment) of financial assets	4.2.1	885	(415)
(2 119)	(4 492)	Impairment and devaluation of non-financial assets	4.2.2	(4 492)	(2 119)
9	34	Dividends received	4.3	—	—
(190)	(157)	Post-retirement benefit obligation expense	4.4	(157)	(190)
10 175	1 566	Fair value adjustments	5	1 566	10 175
		Income/(loss) from associates and joint ventures	13	14	(6)
16 062	4 696	**Profit from operations before net finance costs**		4 676	16 047
(10 684)	(12 187)	Finance costs	6	(12 187)	(10 684)
112	186	Finance income	7	186	126
5 490	(7 305)	**(Loss)/profit before tax**		(7 325)	5 489
(435)	1 649	Tax	8	1 649	(441)
5 055	(5 656)	**(Loss)/profit for the year**		(5 676)	5 048

Statements of comprehensive income

for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Notes	Group 2023 R million	Group 2022 R million
5 055	(5 656)	**(Loss)/profit for the year**		(5 676)	5 048
		Other comprehensive income			
10 916	3 386	Net items that will not be reclassified subsequently to profit or loss		3 386	10 916
13 715	4 521	Items that will not be reclassified subsequently to profit or loss		4 521	13 715
13 632	4 508	– Profit on revaluation		4 508	13 632
83	13	– Actuarial gain on post-retirement benefit obligations		13	83
(2 799)	(1 135)	Tax relating to components that will not be reclassified subsequently to profit or loss	8.1	(1 135)	(2 799)
(9)	396	Net items that may be reclassified subsequently to profit or loss		396	(7)
(2)	544	Items that may be reclassified subsequently to profit or loss		544	3
(5)	537	– Profit/(loss) on cash flow hedges		537	(5)
3	7	– Gain on revaluation		7	8
(7)	(148)	Tax relating to components that may be reclassified subsequently to profit or loss	8.1	(148)	(10)
10 907	3 782	**Other comprehensive income for the year, net of tax**		3 782	10 909
15 962	(1 874)	**Total comprehensive income for the year**		(1 894)	15 957

Disclosure of components of other comprehensive income

for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Notes	Group 2023 R million	Group 2022 R million
		Items that will not be reclassified subsequently to profit or loss			
10 816	3 375	**Net profit on revaluation reserve**		3 375	10 816
13 632	4 508	Profit on revaluation		4 508	13 632
905	453	– Gain on revaluation of pipeline networks	22	453	905
4 092	4 240	– Gain on revaluation of port facilities	22	4 240	4 092
6 643	772	– Gain on revaluation of rail infrastructure	22	772	6 643
(8)	83	– Decommissioning and restoration liability adjustment	22	83	(8)
2 000	(1 040)	– (Loss)/gain on revaluation of land, buildings and structures	22	(1 040)	2 000
(2 816)	(1 133)	Tax effect of revalued items	8.1	(1 133)	(2 816)
100	11	**Net actuarial gain on post-retirement benefit obligations**		11	100
83	13	Actuarial gain on post-retirement benefit obligations	22	13	83
8	7	– Actuarial gain on the Transport Pension Fund: Transnet Sub-fund	32.1.2	7	8
(3)	(3)	– Actuarial loss on the Transnet Top Management Pensions	32.1.4	(3)	(3)
15	16	– Actuarial gain on the Transnet Workmen's Compensation Act Pensioners	32.1.5	16	15
8	(16)	– Actuarial (loss)/gain on the Transnet SATS Pensioners medical benefits	32.2.1	(16)	8
55	9	– Actuarial gain on the Transnet employees medical benefits	32.2.2	9	55
17	(2)	Tax effect of net actuarial gain	8.1	(2)	17
		Items that may be reclassified subsequently to profit or loss			
3	5	**Net gain on revaluation reserve**		5	5
3	7			7	8
—	—	– Gain on revaluation of debt investment	22	—	5
3	7	– Gain on revaluation of other investments	22	7	3
—	(2)	– Tax effect of revalued items	8.1	(2)	(3)
(12)	391	**Net gain/(loss) on cash flow hedging reserve**		391	(12)
(5)	537	– Profit/(loss) on cash flow hedges	22	537	(5)
(7)	(146)	– Tax effect of cash flow hedge (profit)/loss	8.1	(146)	(7)
10 907	3 782	**Other comprehensive income for the year**		3 782	10 909

Statements of financial position

at 31 March 2023

Company 2022 R million	Company 2023 R million		Notes	Group 2023 R million	Group 2022 R million
		Assets			
		Non-current assets			
300 738	300 235	Property, plant and equipment	9	300 235	300 738
29 112	30 095	Investment property	10	30 095	29 112
740	704	Intangible assets	11	704	740
—	—	Investments in subsidiaries	12	—	—
8	8	Investments in associates and joint ventures	13	73	93
787	3 418	Derivative financial assets	14	3 418	787
—	—	Long-term loans and advances	15	—	—
1 614	2 390	Other investments and long-term financial assets	16.1	2 387	1 166
332 999	336 850			336 912	332 636
		Current assets			
3 615	3 655	Inventory	17	3 655	3 615
7 802	8 816	Trade and other receivables	18	8 840	7 816
651	722	Contract assets	27	722	651
—	—	Current tax asset		2	2
6 494	—	Derivative financial assets	14	—	6 494
61	57	Other short-term investments	16.2	57	61
3 478	13 540	Cash and cash equivalents	19	13 540	3 936
22 101	26 790			26 816	22 575
307	326	Assets classified as held-for-sale	20	326	307
22 408	27 116			27 142	22 882
355 407	363 966	**Total assets**		364 054	355 518
		Equity and liabilities			
		Capital and reserves			
12 661	18 498	Issued capital	21	18 498	12 661
130 989	129 115	Reserves	22	129 223	131 117
143 650	147 613	**Attributable to the equity holder**		147 721	143 778
		Non-current liabilities			
776	729	Employee benefits	23	729	776
92 301	78 729	Long-term borrowings	24	78 729	92 301
1 458	567	Derivative financial liabilities	14	567	1 458
10 007	10 268	Long-term provisions	25	10 268	10 007
44 700	44 334	Deferred tax liability	26	44 314	44 680
3 729	3 320	Other non-current liabilities	16.3	3 320	3 729
152 971	137 947			137 927	152 951
		Current liabilities			
1 259	1 825	Contract liabilities	27	1 825	1 259
19 942	24 382	Trade payables and accruals	28	24 382	19 945
36 537	51 338	Short-term borrowings	29	51 338	36 537
49	16	Derivative financial liabilities	14	16	49
999	845	Short-term provisions	25	845	999
58 786	78 406			78 406	58 789
355 407	363 966	**Total equity and liabilities**		364 054	355 518

Statements of changes in equity

for the year ended 31 March 2023

	Issued capital R million	Revaluation reserve R million	Actuarial gains and losses R million	Cash flow hedging reserve R million	Other* R million	Retained earnings R million	Total R million
Company							
Opening balances as at 1 April 2021	12 661	50 774	2 490	(571)	250	62 084	127 688
Profit for the year	—	—	—	—	—	5 055	5 055
Other comprehensive income/(loss) for the year (net of tax)	—	10 819	100	(12)	—	—	10 907
Transfer to retained earnings	—	(185)	—	—	—	185	—
Balances at 31 March 2022	12 661	61 408	2 590	(583)	250	67 324	143 650
Ordinary share issuance	5 837	—	—	—	—	—	5 837
Loss for the year	—	—	—	—	—	(5 656)	(5 656)
Other comprehensive income for the year (net of tax)	—	3 380	11	391	—	—	3 782
Transfer to retained earnings	—	(338)	—	—	—	338	—
Balances at 31 March 2023	18 498	64 450	2 601	(192)	250	62 006	147 613
Group							
Opening balances as at 1 April 2021	12 661	50 772	2 490	(571)	249	62 220	127 821
Profit for the year	—	—	—	—	—	5 048	5 048
Other comprehensive income/(loss) for the year (net of tax)	—	10 821	100	(12)	—	—	10 909
Transfer to retained earnings	—	(185)	—	—	—	185	—
Balances at 31 March 2022	12 661	61 408	2 590	(583)	249	67 453	143 778
Ordinary share issuance	5 837	—	—	—	—	—	5 837
Loss for the year	—	—	—	—	—	(5 676)	(5 676)
Other comprehensive income for the year (net of tax)	—	3 380	11	391	—	—	3 782
Transfer to retained earnings	—	(338)	—	—	—	338	—
Balances at 31 March 2023	18 498	64 450	2 601	(192)	249	62 115	147 721

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

Statements of cash flows

for the year ended 31 March 2023

Company				Group	
2022 R million	2023 R million		Notes	2023 R million	2022 R million
17 532	22 175	**Cash flows from operating activities**		22 196	17 534
25 587	21 782	Cash generated from operations	34.1	21 816	25 601
3 470	3 548	Changes in working capital	34.2	3 535	3 457
29 057	25 330	**Cash generated from operations after working capital changes**		25 351	29 058
(9 980)	(10 963)	Finance costs	34.3	(10 963)	(9 980)
112	186	Finance income	7	186	126
—	—	Tax paid	34.4	—	(13)
(120)	(122)	Settlement of post-retirement benefit obligations		(122)	(120)
(1 537)	7 744	Derivatives settled and raised		7 744	(1 537)
(13 173)	(15 226)	**Cash flows utilised in investing activities**		(15 705)	(13 115)
(10 154)	(13 057)	**Investment to maintain operations**		(13 536)	(10 096)
(10 370)	(12 214)	Replacements to property, plant and equipment		(12 214)	(10 370)
(2)	(89)	Acquisition of investment property		(89)	(2)
(5)	(51)	Acquisition of intangible assets		(51)	(5)
(61)	(45)	Borrowing costs capitalised		(45)	(61)
145	—	Proceeds on the disposal of property, plant and equipment		—	145
—	28	Proceeds on the disposal of intangible assets		28	—
9	34	Dividend income		—	—
130	(720)	Net (increase)/decrease in other investments		(1 165)	197
(3 019)	(2 169)	**Investment to expand operations**		(2 169)	(3 019)
(1 872)	(876)	Expansions – property, plant and equipment		(876)	(1 872)
(1 147)	(1 293)	Borrowing costs capitalised		(1 293)	(1 147)
(1 651)	3 113	**Cash flows from/(utilised in) financing activities**		3 113	(1 651)
18 411	50 273	Borrowings raised*		50 273	18 411
(20 062)	(52 997)	Borrowings repaid**		(52 997)	(20 062)
—	5 837	Ordinary share issuance		5 837	—
2 708	10 062	Net increase in cash and cash equivalents		9 604	2 768
770	3 478	Cash and cash equivalents at the beginning of the year		3 936	1 168
3 478	13 540	**Total cash and cash equivalents at the end of the year**	19	13 540	3 936

* *Borrowings raised excludes deferred interest of R160 million (2022: R479 million), refer note 34.3 and fees relating to the raising of borrowings of R91 million (2022: R35 million).*

** *Included in borrowings repaid are repayments in respect of leases of R608 million (2022: R599 million).*

Segment information

for the year ended 31 March 2023

	Freight Rail R million	Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	Other segments[1] R million	Elimination of inter segment transactions R million	Total R million
Revenue from contracts with customers	33 867	210	9 080	16 826	5 742	65 725	25	—	65 750
Coal	9 954	—	—	—	—	9 954	—	—	9 954
Iron ore and manganese	14 852	—	—	—	—	14 852	—	—	14 852
Mineral mining and chrome	4 323	—	—	—	—	4 323	—	—	4 323
Steel and cement	2 338	—	—	—	—	2 338	—	—	2 338
Agricultural and bulk liquids	1 143	—	—	—	—	1 143	—	—	1 143
Marine services	—	—	2 637	—	—	2 637	—	—	2 637
Containers	711	—	3 319	7 957	—	11 987	—	—	11 987
Automotive	100	—	450	1 400	—	1 950	—	—	1 950
Break-bulk	—	—	151	1 725	—	1 876	—	—	1 876
Bulk	—	—	2 210	5 744	—	7 954	—	—	7 954
Pipelines – oil and gas	—	—	—	—	5 731	5 731	—	—	5 731
Engineering	—	210	—	—	—	210	—	—	210
Other[2]	446	—	313	—	11	770	25	—	795
Other revenue	417	—	1 953	—	53	2 423	704	—	3 127
Lease income	417	—	1 953	—	—	2 370	704	—	3 074
Government grant	—	—	—	—	53	53	—	—	53
Total external revenue	34 284	210	11 033	16 826	5 795	68 148	729	—	68 877
Internal revenue	526	7 835	2 359	—	5	10 725	4 964	(15 689)	—
Total revenue	34 810	8 045	13 392	16 826	5 800	78 873	5 693	(15 689)	68 877
Energy costs	(6 009)	(253)	(780)	(995)	(332)	(8 369)	(428)	—	(8 797)
Maintenance costs	(2 793)	(172)	(569)	(521)	(125)	(4 180)	(380)	1 313	(3 247)
Material costs	(606)	(3 227)	(97)	(697)	(2)	(4 629)	(10)	3 430	(1 209)
Personnel costs	(12 399)	(5 257)	(2 781)	(5 403)	(487)	(26 327)	(2 509)	4 181	(24 655)
Other costs[3]	(6 281)	(1 139)	(1 653)	(3 318)	9	(12 382)	(2 394)	6 765	(8 011)
Earnings before interest, tax, depreciation, derecognition and amortisation (EBITDA)	6 722	(2 003)	7 512	5 892	4 863	22 986	(28)	—	22 958
Depreciation and amortisation	(10 420)	(226)	(2 742)	(1 763)	(1 070)	(16 221)	(119)	242	(16 098)
Impairment of assets	(2 630)	156	(197)	(690)	(14)	(3 375)	(232)	—	(3 607)
Dividends received and income from associates	—	—	—	—	—	—	14	—	14
Fair value adjustments and post-retirement benefit obligation expense	20	3	661	1	—	685	724	—	1 409
Finance costs	(6 131)	(958)	(744)	205	(243)	(7 871)	(16 379)	12 063	(12 187)
Finance income	(6)	13	432	391	1	831	11 418	(12 063)	186
(Loss)/profit before taxation	(12 445)	(3 015)	4 922	4 036	3 537	(2 965)	(4 602)	242	(7 325)
Total assets[4]	173 380	16 437	101 761	29 939	42 090	363 607	17 324	(17 203)	363 728
Total liabilities	133 211	15 431	25 935	7 655	17 527	199 759	29 593	(13 019)	216 333
Capital expenditure[5]	11 288	11	1 551	1 037	32	13 919	(48)	—	13 871
Cash generated from operations after working capital changes	12 479	(3 942)	6 687	6 212	3 773	25 209	142	—	25 351
EBITDA margin (%)	19,3	(24,9)	56,1	35,0	83,8	29,1	n/a	n/a	33,3
Number of permanent employees	22 995	8 126	3 911	7 690	648	43 370	2 267	n/a	45 637

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

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

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

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

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

Segment information

for the year ended 31 March 2022

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

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

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

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

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

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

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for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		1. Revenue		
65 420	65 750	**Revenue from contracts with customers**	65 750	65 420
36 581	33 867	Rail freight	33 867	36 581
459	210	Engineering	210	459
23 093	25 906	Ports	25 906	23 093
5 225	5 742	Pipelines – petroleum products and gas	5 742	5 225
62	25	Other	25	62
3 039	3 127	**Other revenue**	3 127	3 039
2 986	3 074	Lease income	3 074	2 986
53	53	Government grants*	53	53
68 459	68 877	**Total revenue**	68 877	68 459

Refer to the segment information for the disaggregation of revenue streams.

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Performance obligations partially satisfied in previous periods		
241	263	Rail freight Revenue recognised in the current financial year in respect of performance obligations that were partially satisfied in previous periods relates to the following: Rail freight - goods-in-transit at 31 March 2022 whose delivery was completed in the current financial year.	263	241
		Performance obligations relating to contracts partially unsatisfied at year-end		
57 700	50 100	Rail freight and ports	50 100	57 700

The Group expects revenue of R50,1 billion in future periods from performance obligations that were unsatisfied or partially unsatisfied at 31 March 2023, with respect to committed volumes to be transported over rail or processed through the ports on long-term take-or-pay contracts with customers. The amounts exclude variable consideration such as take-or-pay penalties, demurrage, volume rebates and other penalties that may be applicable in future.

Period	R million	%
31 March 2024	21 261	43
31 March 2025	9 941	20
31 March 2026	9 261	18
31 March 2027	9 632	19
31 March 2028 and beyond	5	—
Total	50 100**	100

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

The Group applies the practical expedient in paragraph 121 of IFRS 15 *Revenue from Contracts with Customers*, and does not disclose information about remaining performance obligations on contracts where either:

- the original contractual period is for one year or less; or
- the Group's right to consideration from a customer corresponds directly with the Group's performance completed to date.

Significant judgements

Transnet Pipelines is currently in a legal dispute with two customers relating to short payment for the transportation of crude. The customers have shown no intention to pay the amount. In light of the above, and in accordance with IFRS 15.9(e), Transnet cannot conclude that it is probable that it will collect the consideration to which it will be entitled in exchange for the goods or services transferred to the customers and has therefore not recognised the revenue. The total amount short paid by the customers as at 31 March 2023 is R1 236 million (2022: R675 million).

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		2. Net operating expenses excluding depreciation, derecognition and amortisation		
158	49	Accommodation and refreshments	49	158
1 317	1 553	Electronic data costs	1 553	1 317
8 002	8 797	Energy costs	8 797	8 002
115	204	External audit fees (refer note 4.1)	204	115
574	452	Haulage costs	452	574
605	684	Health and sanitation	684	605
300	375	Insurance	375	300
2 392	3 247	Maintenance costs	3 247	2 392
418	598	Managerial and technical consulting fees	598	418
803	1 209	Material costs	1 209	803
1 223	1 055	Lease expenses (refer note 4.1)	1 055	1 223
26 194	24 655	Personnel costs	24 655	26 194
36	56	Printing and stationery	56	36
137	82	Loss on disposal of property, plant and equipment	82	137
—	4	Loss on disposal of intangible assets	4	—
55	43	Promotions and advertising	43	55
1 009	1 181	Rates and taxes	1 181	1 009
1 738	2 212	Security	2 212	1 738
156	193	Telecommunications	193	156
74	106	Transport	106	74
15	30	Research and development costs	30	15
487	622	Water	622	487
582	(18)	Third party claims[1]	(18)	582
545	488	Other expenses[2]	488	545
(1 925)	(1 958)	Other income[3]	(1 958)	(1 925)
45 010	45 919		45 919	45 010

[1] *Includes a reversal of a legal claim due to the application of the in duplum principal of R380 million (2022: R75 million raised).*

[2] *Includes COVID-19 related expenses of R7 million (2022: R109 million).*
Other expenses is mainly made up of corporate and social investment costs, travel costs and environmental management expense (2023: R2 million and 2022: R323 million).

[3] *Other income is mainly made up of operating income relating to scrap income, lease recoveries, Prasa related recoveries, and insurance recoveries.*

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3. Depreciation, derecognition and amortisation

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Depreciation and derecognition (refer note 9)		
8 100	7 908	**Depreciation and derecognition – owned assets at historic cost**	7 908	8 100
66	58	Aircraft	58	66
184	180	Floating craft	180	184
281	245	Land and land improvements	245	281
882	750	Buildings and structures	750	882
637	512	Machinery, equipment and furniture	512	637
24	25	Permanent way and works	25	24
5 993	6 125	Rolling stock and containers	6 125	5 993
33	13	Vehicles	13	33
5 940	7 249	**Depreciation and derecognition – owned assets revalued portion**	7 249	5 940
1 971	2 994	Rail infrastructure	2 994	1 971
1 065	1 092	Pipeline networks	1 092	1 065
2 904	3 163	Port facilities	3 163	2 904
602	657	**Depreciation and derecognition – right-of-use assets at historic cost**	657	602
44	8	Buildings and structures	8	44
5	2	Machinery, equipment and furniture	2	5
2	1	Permanent way and works	1	2
551	646	Vehicles	646	551
14 642	15 814		15 814	14 642
		Amortisation of intangible assets (refer note 11)		
205	284	Software and licences	284	205
14 847	16 098	**Total depreciation, derecognition and amortisation**	16 098	14 847

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		4.1 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation expense, fair value adjustments and income from associates and joint ventures is stated after taking into account the following amounts:		
		External audit fees		
32	203	Audit fees – current year	203	32
83	—	Audit fees – prior year	—	83
—	1	Fees for audit-related and other services	1	—
115	204		204	115

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		4.1 Profit from operations before impairment of assets, dividends received, post-retirement benefit obligation expense, fair value adjustments and income from associates and joint ventures is stated after taking into account the following amounts:		
		Lease expenses		
25	20	Variable lease payments not included in the measurement of lease liabilities	20	25
38	13	Expenses relating to short-term leases	13	38
1 160	1 022	Expenses relating to leases of low-value assets	1 022	1 160
1 223	1 055		1 055	1 223
		Directors' and executives' emoluments (refer note 38)		
14	14	Executive directors	14	14
6	6	Non-executive directors	6	6
72	73	Senior executives	73	72
92	93		93	92
		4.2.1 (Reversal of impairment)/impairment of financial assets		
381	272	Trade receivables from contracts with customers	272	381
34	(1 157)	Other receivables*	(1 157)	34
415	(885)		(885)	415
		** The impairment reversal relates mainly to the settlement of old debt by Prasa.*		
		4.2.2 Impairment and devaluation of non-financial assets**		
2 124	4 413	Property, plant and equipment (refer note 9)	4 413	2 124
—	75	Investment property (refer note 10)	75	—
(5)	4	Intangible assets (refer note 11)	4	(5)
2 119	4 492		4 492	2 119
		*** Primarily due to property, plant and equipment impairments, resulting from the flooding in KZN, the physical verification exercise at Freight Rail, derailments and the index valuation on port operating assets.*		
		4.3 Dividends received		
9	34	Dividends from associates	—	—
		4.4 Post-retirement benefit obligation expense		
11	9	Transport Pension Fund: Transnet Sub-fund	9	11
—	—	Transnet Second Defined Benefit Fund	—	—
4	5	Transnet Top Management pensions	5	4
39	36	Transnet Workmen's Compensation Act pensioners	36	39
21	17	Transnet SATS pensioners' post-retirement medical benefits	17	21
26	21	Transnet employees' post-retirement medical benefits	21	26
89	69	Other post-retirement and medical benefits (refer note 23)	69	89
190	157		157	190

Notes to the annual financial statements

for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		5. Fair value adjustments		
9 814	1 054	Fair value adjustment of investment property (refer note 10)	1 054	9 814
288	713	Derivative fair value adjustments (refer note 14)	713	288
48	(109)	Fair value adjustments on firm commitments	(109)	48
25	(92)	Fair value adjustments on other financial assets held at FVTPL	(92)	25
10 175	1 566		1 566	10 175
		6. Finance costs		
(2)	(42)	Net foreign exchange gains on translation	(42)	(2)
57	52	Discounts on bonds amortised	52	57
192	217	Interest on lease liabilities	217	192
275	240	Unwinding of discounts on provisions	240	275
11 370	13 058	Interest cost – financial liabilities at amortised cost	13 058	11 370
11 892	13 525	**Gross finance costs**	13 525	11 892
(1 208)	(1 338)	Borrowing costs capitalised	(1 338)	(1 208)
10 684	12 187		12 187	10 684
		** The weighted average capitalisation rate on funds borrowed generally is 12,37% per annum (2022: 9,11% per annum).*		
		7. Finance income		
7	120	Bank deposits	120	21
105	66	Financial assets at amortised cost	66	105
112	186		186	126
		8. Taxation		
		South African normal tax		
—	—	– Current year	—	10
		Deferred tax (refer note 26)		
435	(1 649)	– Current year	(1 649)	431
435	(1 649)		(1 649)	441
%	%	**Reconciliation of tax rate**	%	%
27,00	27,00	Standard rate — South African normal tax	27,00	27,00
(19,08)	(4,43)	Adjustment for differences	(4,49)	(18,97)
(6,59)	(3,76)	Expenses not included for tax purposes	(3,76)	(6,48)
0,13	(0,56)	Permanent provisions	(0,56)	0,13
3,56	(2,54)	Depreciation on property, plant and equipment (PPE) not subject to tax allowances	(2,54)	3,56
(1,46)	(1,20)	Impairment of PPE	(1,20)	(1,46)
(9,65)	0,79	Fair value adjustments	0,79	(9,65)
(0,21)	(0,06)	Disposal of fixed assets not subject to tax allowances	(0,06)	(0,21)
0,58	(0,17)	Capital legal, professional and other expenses	(0,17)	0,69
0,02	—	Disallowed donations	—	0,02
0,44	(0,02)	Fruitless and wasteful expenditure	(0,02)	0,44
—	0,13	Exempt local dividends	—	—
(12,49)	(0,80)	Adjustment to deferred tax charge	(0,73)	(12,49)
(0,26)	0,13	Capital gain on disposal of fixed assets	0,13	(0,26)
0,84	(0,58)	PPE adjustments	(0,58)	0,84
(0,09)	(0,27)	Firm commitments	(0,27)	(0,09)
0,51	(0,08)	Provisions not through the income statement	(0,01)	0,51
(13,49)	—	Change in corporate tax rate	—	(13,49)
7,92	22,57	**Effective rate of tax**	22,51	8,03

The income statement credit is comprised mainly of deferred tax. The credit arose mainly due to the loss before tax for the year.

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		8. Taxation continued		
		8.1 Tax recognised in other comprehensive income		
		Arising on the tax effects of items recognised in comprehensive income:		
(210)	(122)	Gain on revaluation of pipeline networks and decommissioning restoration liability	(122)	(210)
(986)	(1 117)	Gain on revaluation of port facilities and decommissioning liability	(1 117)	(986)
(1 794)	(264)	Gain on revaluation of rail infrastructure	(264)	(1 794)
(568)	370	Loss/(gain) on revaluation of land, building and structures	370	(568)
(1)	(2)	Gain on revaluation of investments to market value (Rumo Ltd)	(2)	(1)
—	—	Gain on revaluation of debt instrument	—	(3)
1	(146)	Cash flow hedge (gain)/loss	(146)	1
(22)	(2)	Actuarial gain on post-retirement benefit obligations	(2)	(22)
774	—	Impact of change in corporate tax rate	—	774
(2 806)	(1 283)	**Total tax recognised in other comprehensive income**	(1 283)	(2 809)
		9. Property, plant and equipment		
		Property, plant and equipment is stated at historical cost except for pipeline networks, port facilities and rail infrastructure, which are stated at revalued amounts.		
300 738	300 235	**Net book value**	300 235	300 738
496 809	516 428	Gross carrying value	516 428	496 809
(196 071)	(216 193)	Accumulated depreciation and impairment	(216 193)	(196 071)
		Comprising:		
		Historical cost		
236 441	244 360	**Gross carrying value**	244 360	236 441
474	507	– Aircraft	507	474
5 036	5 020	– Floating craft	5 020	5 036
6 044	5 763	– Land and land improvements	5 763	6 044
26 115	25 805	– Buildings and structures	25 805	26 115
13 373	13 593	– Machinery, equipment and furniture	13 593	13 373
1 426	1 459	– Permanent way and works	1 459	1 426
146 173	150 020	– Rolling stock and containers	150 020	146 173
4 377	4 638	– Vehicles	4 638	4 377
33 423	37 555	– Capital work-in-progress**	37 555	33 423
(79 376)	(85 415)	**Accumulated depreciation**	(85 415)	(79 376)
(309)	(367)	– Aircraft	(367)	(309)
(1 852)	(2 015)	– Floating craft	(2 015)	(1 852)
(1 802)	(2 036)	– Land and land improvements	(2 036)	(1 802)
(11 141)	(11 899)	– Buildings and structures	(11 899)	(11 141)
(9 495)	(9 288)	– Machinery, equipment and furniture	(9 288)	(9 495)
(236)	(258)	– Permanent way and works	(258)	(236)
(52 536)	(57 417)	– Rolling stock and containers	(57 417)	(52 536)
(2 005)	(2 135)	– Vehicles	(2 135)	(2 005)

*** Capital work-in-progress includes R5 327 million (2022: R5 478 million) advance payments to original equipment manufacturers (OEMs) in respect of the acquisition of 99 electric locomotives from CRRC E-loco Supply (Pty) Ltd (CRRC E-loco), 210 diesel locomotives from CRRC SA Rolling Stock Pty (Ltd) (CRRC SA) and 149 diesel locomotives from Bombardier Transportation South Africa Pty (Ltd) (BT) respectively. Total capital work-in-progress under the three contracts at 31 March 2023 was R13 781 million (2022: R13 026 million).*

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

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9. Property, plant and equipment continued

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
(11 904)	(14 414)	**Accumulated impairment (refer note 4.2.2)**	(14 414)	(11 904)
(191)	(94)	– Floating craft	(94)	(191)
(75)	(260)	– Buildings and structures	(260)	(75)
(266)	(291)	– Machinery, equipment and furniture	(291)	(266)
—	(15)	– Permanent way and works	(15)	—
(7 904)	(10 043)	– Rolling stock and containers	(10 043)	(7 904)
(66)	(65)	– Vehicles	(65)	(66)
(3 402)	(3 646)	– Capital work-in-progress	(3 646)	(3 402)
145 161	144 531	**Net book value of property, plant and equipment stated at historical cost**	144 531	145 161
		Revaluation		
260 368	272 068	**Gross carrying value**	272 068	260 368
63 019	65 047	– Pipeline networks	65 047	63 019
125 171	132 483	– Port facilities	132 483	125 171
72 178	74 538	– Rail infrastructure	74 538	72 178
(102 365)	(112 309)	**Accumulated depreciation**	(112 309)	(102 365)
(26 233)	(28 676)	– Pipeline networks	(28 676)	(26 233)
(54 203)	(59 491)	– Port facilities	(59 491)	(54 203)
(21 929)	(24 142)	– Rail infrastructure	(24 142)	(21 929)
(2 426)	(4 055)	**Accumulated impairment**	(4 055)	(2 426)
(207)	(218)	– Pipeline networks	(218)	(207)
(1 862)	(2 552)	– Port facilities	(2 552)	(1 862)
(357)	(1 285)	– Rail infrastructure	(1 285)	(357)
155 577	155 704	**Net book value of property, plant and equipment stated at revalued amounts**	155 704	155 577
300 738	300 235	**Total net book value**	300 235	300 738

Land improvements, buildings and structures

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

During the year, the Group transferred R85 million from (2022: R2,8 billion to) investment property to property, plant and equipment. The fair value of property transferred from investment property is their deemed cost for subsequent accounting in accordance with IAS 16 *Property, Plant and Equipment*.

Assets under lease

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
2 008	2 152	Included in property, plant and equipment are assets under lease with a carrying value of	2 152	2 008

9. Property, plant and equipment continued

Pipeline networks

Pipeline networks were revalued at 31 March 2023 based on the depreciated replacement cost (DRC) and discounted cash flow methods. Details of significant unobservable inputs applied in the valuation are provided in the table on page 69 in note 9.

An external index valuation was performed as at 31 March 2023 by Ernst and Young, an independent firm of professional valuers, on the basis of the depreciated replacement cost methodology.

As at 31 March 2023, the index valuation resulted in a fair value of R39,3 billion for all assets (2022: R38,1 billion based on an index valuation conducted by Ernst and Young). The discounted cash flow method resulted in a fair value of R42,7 billion at 31 March 2023 for all assets (2022: R39,1 billion). The index valuation was applied to assets in the old pipeline network and resulted in a net increase of R453 million (2022: R905 million) to the carrying value of the old pipeline assets. The new pipeline network assets remained at carrying value as per the point of range methodology.

Fair value hierarchy

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
36 579	36 153	Level 3 – significant unobservable inputs*	36 153	36 579
31 582	30 906	The historic cost carrying values of these assets amount to	30 906	31 582

Port facilities

Port infrastructure

Port infrastructure was revalued at 31 March 2023 based on the depreciated optimised replacement cost and discounted cash flow methods.

The discounted cash flow method resulted in a fair value of R62,9 billion (2022: R61,4 billion) as at 31 March 2023, which resulted in an increase of R2,8 billion (2022: R3,9 billion) to the carrying value of the port infrastructure assets.

The fair value of port infrastructure assets based on the discounted cash flow method is sensitive to changes in the discount rate and terminal growth rates. The rates applied at 31 March 2023 were 11,11% and 5,51% respectively. For example, a 0,1% change in the discount rate would result in a fair value change of R1,5 billion. Similarly, a 0,1% change in the terminal growth rate would result in the fair value changing by R1,1 billion.

Port operating assets

An index valuation was applied to port operating assets and resulted in an increase of R1,44 billion (2022: R169,3 million decrease) in the carrying value of the port operating assets. As at 31 March 2023, the fair value of port operating assets based on the index valuation amounts to R8,2 billion (2022: R7,7 billion).

Fair value hierarchy

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
69 106	70 440	Level 3 – significant unobservable inputs*	70 440	69 106
22 629	22 335	The historical carrying values of these assets amount to	22 335	22 629

* *For more detail regarding the measurement of level 3 fair values refer to the table on page 69 in note 9.*

Notes to the annual financial statements

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Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		9. Property, plant and equipment continued		
		Rail infrastructure		
		Rail infrastructure was revalued on 31 March 2023 based on the discounted cash flow method.		
		The full revaluation based on the depreciated optimised replacement cost method is performed every three years and was most recently performed at 31 March 2022, by Thelo and Duetsche Bhan consortium, an independent firm of professional valuers and resulted in a fair value of R224,8 billion. The discounted cash flow method resulted in a rail infrastructure revaluation of R772 million (2022: R6,643 million) at 31 March 2023.		
		The discounted cash flow valuation is sensitive to changes in key inputs, such as the discount rate, terminal growth rate and operating cash flows. For example, a 0,1% change in the terminal growth rate would change the asset value by R992 million, whereas the same change in the discount rate will change the asset value by R3,1 billion.		
		Fair value hierarchy		
49 892	49 111	Level 3 – significant unobservable inputs*	49 111	49 892
41 865	41 318	The historical carrying values of these assets amount to	41 318	41 865

* *For more detail regarding the measurement of level 3 fair values refer to the table on page 69 in note 9.*

Useful lives and residual values

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

Residual values

During the year, management conducted its annual assessment of residual values on existing assets. The exercise resulted in a change in the residual values of rail infrastructure assets and there were no changes on the rolling stock assets. The effect of the changes on future periods cannot be reliably estimated. The residual values were determined on average income recovered in the past financial year from scrap steel market prices international Rotterdam. The current reporting period impact is a decrease in depreciation of R2,3 million (2022: R49 million decrease).

Useful lives

The useful lives review was performed in line with Group's accounting policy. The review done was performed by asset owners, users and specialists. The results of the assessment were a net decrease of R68 million (2022: R51 million decrease) in the depreciation expense due to a general decrease in the useful lives of rail infrastructure and general assets.

Fully depreciated assets in use

The assets that were fully depreciated as at 31 March 2023 that are still in use have a historic cost amount of R5,4 billion (2022: R7,2 billion) and remain in the statement of financial position. The remaining carrying amounts will be retained in the asset register until the assets are disposed of.

Property, plant and equipment pledged as security for loans

Rolling stock and containers includes locomotives with a carrying value of R23 678 million (2022: R28 727 million) which are pledged as security for loans amounting to R15 391 million (2022: R15 216 million) raised to fund the acquisition of the locomotives (refer note 36).

Insurance compensation

R216,4 million was received from insurance as compensation in respect of property, plant and equipment that was damaged, as a result of the flooding in Kwazulu-Natal in April 2022.

9. Property, plant and equipment continued

Measurement of level 3 fair values

The table below shows the valuation techniques and significant unobservable inputs applied in measuring level 3 fair values for assets at 31 March 2023.

Asset group	Valuation technique	Significant unobservable inputs	Range (weighted average)
Pipeline networks	Depreciated replacement cost (DRC)	Replacement cost new Physical condition assessment Obsolescence Remaining useful life	△ △ △ △
	Discounted cash flow	Discount rate (%) Terminal growth rate (%) Valuation period (years)	14,17 4,63 10
Port infrastructure	Depreciated optimised replacement cost***	Replacement cost new Physical condition assessment Obsolescence Remaining useful life Indices – Marine index* Dredging index*	△ △ △ △ 104,76 110,6
	Discounted cash flow	Discount rate (%) Terminal growth rate (%) Valuation period (years)	11,11 5,51 7
Port operating assets	Depreciated optimised replacement cost***	Replacement cost new Physical condition assessment Obsolescence Remaining useful life PPI – General and special purpose machinery (142,1)** PPI – Transport equipment (142,7)**	△ △ △ △ 122,50 104,30
	Discounted cash flow	Discount rate (%) Terminal growth rate (%) Valuation period (years)	13,64 4,20 20
Rail infrastructure	Depreciated optimised replacement cost***	Replacement cost new Physical condition assessment Obsolescence Remaining useful life	△ △ △ △
	Discounted cash flow	Discount rate (%) Terminal growth rate (%) Valuation period (years)	11,76 4,60 20

* *Base year = 2021.*

** *Base year = 2022.*

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

△ *Range or weighted average not applicable.*

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9. Property, plant and equipment continued

PPE reconciliation

Company and Group	Aircraft R million	Floating craft R million	Land R million	Buildings and structures R million	Machinery equipment and furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rail infra-structure R million	Rolling stock and containers R million	Vehicles R million	Capital work-in-progress R million	31 March 2023 Total R million
Balance at the beginning of the year													
Historical cost and revaluation	474	5 036	6 044	26 115	13 373	1 426	63 019	125 171	72 178	146 173	4 377	33 423	496 809
Accumulated depreciation	(309)	(1 852)	(1 802)	(11 141)	(9 495)	(236)	(26 233)	(54 203)	(21 929)	(52 536)	(2 005)	—	(181 741)
Accumulated impairment	—	(191)	—	(80)	(292)	—	(207)	(1 862)	(357)	(8 365)	(66)	(2 910)	(14 330)
	165	2 993	4 242	14 894	3 586	1 190	36 579	69 106	49 892	85 272	2 306	30 513	300 738
Adjustment to asset classes*	—	—	—	5	26	—	—	—	—	461	—	(492)	—
Opening net carrying value at 1 April	165	2 993	4 242	14 899	3 612	1 190	36 579	69 106	49 892	85 733	2 306	30 021	300 738
Current year movements													
Replacements	33	1	27	4	177	—	—	—	2 791	3 145	2	6 034	12 214
Expansions	—	—	—	3	10	—	—	—	—	3	3	857	876
Acquisition through lease	—	—	—	—	—	—	—	—	—	—	781	—	781
Change in decommissioning liability	—	—	—	(37)	—	—	—	—	—	—	—	—	(37)
Disposals	—	—	—	—	—	—	(1)	(7)	(13)	(9)	(17)	—	(47)
Depreciation	(58)	(180)	(245)	(758)	(514)	(26)	(1 092)	(3 163)	(2 239)	(5 709)	(659)	—	(14 643)
Derecognition	—	—	—	—	—	—	—	—	(755)	(416)	—	—	(1 171)
Revaluation/(devaluation) adjustment recognised in other comprehensive income	—	—	(319)	(721)	—	—	453	4 240	772	—	—	—	4 425
(Impairment)/reversal of impairment recognised in profit or loss	—	97	—	(185)	(83)	(14)	(12)	(782)	(929)	(2 261)	—	(244)	(4 413)
Transferred to intangibles assets	—	—	—	—	—	—	—	—	—	—	—	(233)	(233)
Transfers to non-current assets classified as held-for-sale	—	—	—	—	44	—	—	(55)	—	(12)	—	—	(23)
Transfer from/(to) investment property	—	—	(9)	94	—	—	—	—	—	—	—	—	85
Foreign exchange adjustment	—	—	—	—	—	—	—	—	—	—	—	2	2
Borrowing costs capitalised	—	—	—	—	—	—	—	—	—	—	—	1 338	1 338
Release of firm commitment	—	—	—	—	—	—	—	—	—	—	—	(1)	(1)
Unrealised firm commitment	—	—	—	—	—	—	—	—	—	—	—	228	228
Transfer from/(to) inventory	—	—	—	—	—	—	—	—	—	101	15	—	116
Transfer from capital work in progress to assets	—	—	31	347	768	36	226	1 101	(408)	1 985	7	(4 093)	—
Total current year movement	(25)	(82)	(515)	(1 253)	402	(4)	(426)	1 334	(781)	(3 173)	132	3 888	(503)
Closing carrying value	140	2 911	3 727	13 646	4 014	1 186	36 153	70 440	49 111	82 560	2 438	33 909	300 235
Made up as follows:													
Historical cost and revaluation	507	5 020	5 763	25 805	13 593	1 459	65 047	132 483	74 538	150 020	4 638	37 555	516 428
Accumulated depreciation	(367)	(2 015)	(2 036)	(11 899)	(9 288)	(258)	(28 676)	(59 491)	(24 142)	(57 417)	(2 135)	—	(197 724)
Accumulated impairment	—	(94)	—	(260)	(291)	(15)	(218)	(2 552)	(1 285)	(10 043)	(65)	(3 646)	(18 469)
Closing carrying value at 31 March	140	2 911	3 727	13 646	4 014	1 186	36 153	70 440	49 111	82 560	2 438	33 909	300 235
Assets held under right-of-use contracts													
Carrying values of PPE comprise owned and leased assets, as follows:													
– Property, plant and equipment owned	140	2 911	3 724	13 611	3 940	1 186	36 153	70 438	49 111	82 560	400	33 909	298 083
– Right-of-use assets	—	—	3	35	74	—	—	2	—	—	2 038	—	2 152
Total	140	2 911	3 727	13 646	4 014	1 186	36 153	70 440	49 111	82 560	2 438	33 909	300 235
Right-of-use assets													
Additions during the year	—	—	—	—	—	—	—	—	—	—	781	—	781
Depreciation expense during the year (included above)	—	—	—	(8)	(2)	(1)	—	—	—	—	(646)	—	(657)

* *Includes the adjustment of capital work-in-progress that was incorrectly transferred to certain asset classes in the prior year.*

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9. Property, plant and equipment continued

PPE reconciliation

Company and Group	Aircraft R million	Floating craft R million	Land and land improvements R million	Buildings and structures R million	Machinery equipment and furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rail infra-structure R million	Rolling stock and containers R million	Vehicles R million	Capital work-in-progress R million	31 March 2022 Total R million
Balance at the beginning of the year													
Historical cost and revaluation	450	5 034	7 114	25 516	13 014	1 356	58 574	118 147	59 602	140 879	3 895	34 633	468 214
Accumulated depreciation	(270)	(1 668)	(1 529)	(10 522)	(9 107)	(221)	(21 896)	(49 508)	(18 587)	(47 671)	(1 943)	—	(162 922)
Accumulated impairment	—	(4)	—	(61)	(235)	—	(198)	(1 838)	(163)	(6 774)	(43)	(3 202)	(12 518)
Opening net carrying value at 1 April	180	3 362	5 585	14 933	3 672	1 135	36 480	66 801	40 852	86 434	1 909	31 431	292 774
Current year movements													
Replacements	43	—	5	33	98	—	—	59	3 924	2 241	1	3 966	10 370
Expansions	—	2	35	17	15	—	—	1	—	1	—	1 801	1 872
Acquisition through lease	—	—	—	—	—	—	—	—	—	—	998	—	998
Change in decommissioning liability	—	—	(19)	—	—	—	—	—	—	—	—	—	(19)
Disposals	—	—	—	(21)	—	—	(25)	(17)	(1)	(56)	(3)	(122)	(245)
Depreciation	(66)	(184)	(281)	(926)	(642)	(26)	(1 065)	(2 904)	(1 713)	(5 400)	(581)	—	(13 788)
Derecognition	—	—	—	—	—	—	—	—	(258)	(593)	(3)	—	(854)
Revaluation/(devaluation) adjustment recognised in other comprehensive income	—	—	1 840	160	—	—	905	4 092	6 643	—	—	—	13 640
(Impairment)/reversal of impairment recognised in profit or loss	—	(187)	(7)	(12)	(70)	—	(10)	(23)	(193)	(1 889)	(23)	290	(2 124)
Transferred to intangibles assets	—	—	—	—	(46)	—	—	—	—	—	—	—	(46)
Transfers to non-current assets classified as held-for-sale	—	—	(6)	—	(25)	—	—	(15)	—	(19)	—	—	(65)
Transfer from/(to) investment property	—	—	(3 108)	348	2	—	—	—	—	—	—	(32)	(2 790)
Foreign exchange adjustment	—	—	—	—	10	—	—	—	—	—	—	—	10
Borrowing costs capitalised	—	—	—	—	—	—	—	—	—	—	—	1 208	1 208
Release of firm commitment	—	—	—	—	—	—	—	—	—	—	—	(11)	(11)
Unrealised firm commitment	—	—	—	—	—	—	—	—	—	—	—	23	23
Transfer from inventory	—	—	—	—	(3)	—	—	—	—	(80)	—	(132)	(215)
Transfer from capital work-in-progress to assets	8	—	198	367	601	81	294	1 112	638	5 094	8	(8 401)	—
Total current year movement	(15)	(369)	(1 343)	(34)	(60)	55	99	2 305	9 040	(701)	397	(1 410)	7 964
Closing carrying value	165	2 993	4 242	14 899	3 612	1 190	36 579	69 106	49 892	85 733	2 306	30 021	300 738
Made up as follows:													
Historical cost and revaluation	474	5 036	6 044	26 115	13 373	1 426	63 019	125 171	72 178	146 173	4 377	33 423	496 809
Accumulated depreciation and derecognition	(309)	(1 852)	(1 802)	(11 141)	(9 495)	(236)	(26 233)	(54 203)	(21 929)	(52 536)	(2 005)	—	(181 741)
Accumulated impairment	—	(191)	—	(75)	(266)	—	(207)	(1 862)	(357)	(7 904)	(66)	(3 402)	(14 330)
Closing carrying value at 31 March	165	2 993	4 242	14 899	3 612	1 190	36 579	69 106	49 892	85 733	2 306	30 021	300 738
PPE comprise owned and leased assets, as follows (at carrying value):													
– Property, plant and equipment owned	165	2 993	4 239	14 861	3 601	1 175	36 579	69 104	49 892	85 733	367	30 021	298 730
– Right-of-use assets	—	—	3	38	11	15	—	2	—	—	1 939	—	2 008
Closing carrying value at 31 March	165	2 993	4 242	14 899	3 612	1 190	36 579	69 106	49 892	85 733	2 306	30 021	300 738
Right-of-use assets													
Additions during the year	—	—	—	—	—	—	—	—	—	—	998	—	998
Depreciation expense during the year (included above)	—	—	—	(44)	(5)	(3)	—	—	—	—	(393)	—	(445)

Notes to the annual financial statements

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Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		10. Investment property		
16 506	29 112	Carrying value at the beginning of the year	29 112	16 506
2 790	(85)	Transferred (to)/from property, plant and equipment (refer note 9)	(85)	2 790
9 814	1 054	Fair value adjustment recognised in profit and loss (refer note 5)	1 054	9 814
2	89	Additions	89	2
—	—	Transferred to assets classified as held-for-sale (refer note 20)	—	—
—	(75)	Impairment (refer note 4.2.2)	(75)	—
29 112	30 095	Carrying value at the end of the year*	30 095	29 112
		Fair value hierarchy		
29 861	30 358	Level 3 – significant unobservable inputs	30 358	29 861

* *The carrying amount of investment property at the end of the year excludes the lease smoothing adjustments of R263 million (2022: R749 million) which would previously have been included in the fair value of investment property.*

The investment property portfolio consist of commercial properties (ie office and retail) and industrial properties across South Africa. The valuation of the Group's investment properties at 31 March 2023 was carried out by independent external valuers, and conforms to the Property Valuers Profession Act, No. 47 of 2000. A full valuation was performed for one third of the investment property portfolio and a desktop valuation was undertaken for the remainder of the property.

The fair value was derived by capitalising the normalised net annual income at market derived capitalisation rates, which are adjusted where appropriate, to reflect the risk profile of each individual property. The capitalisation rate is calculated by dividing the net annual return from rental by the purchase price or market value of a property. The comparative method was applied to instances where the capitalisation rates were not available. The significant unobservable inputs applied are the capitalisation rates and the net rental/m^2, which are detailed in the table below.

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

The gross lease income earned by the Group from its investment properties which are leased out under operating leases amounted to R3 074 million (2022: R2 986 million). Of this amount, nil related to variable lease payments that do not depend on an index or a rate. Direct operating expenses arising on the investment properties during the year amounted to R1 383 million (2022: R1 305 million). No material direct expenses (including repairs and maintenance) arising on investment property, that did not generate rental income during the year, were incurred.

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

Significant unobservable inputs detail – 2023

Capitalistion rate method								
Capitalisation rate (%)	**Port – Land**	**Land**	**Industrial**	**Office**	**Residential**	**Retail**	**Other**	**Mixed use**
Minimum	9,50%	n/a	9,75%	9,00%	n/a	9,75%	10,00%	9,00%
Maximum	12,00%	n/a	12,00%	13,00%	n/a	12,50%	11,00%	12,00%
Weighted average	10,20%	n/a	10,92%	9,49%	n/a	10,57%	10,01%	11,37%
Net rentals (R/m^2 per month)								
Minimum	R1,92	n/a	R15,00	R19,22	R16,69	R18,02	R3,93	R15,94
Maximum	R48,87	n/a	R42,04	R122,89	R16,69	R207,57	R21,87	R137,39
Weighted average	n/a	n/a	R31,30	R76,87	R16,69	R77,53	R3,93	R61,37
Comparative method								
Price (R/m^2)								
Minimum	n/a	R1,00	R1 200,00	n/a	R400,00	n/a	n/a	n/a
Maximum	n/a	R1 600,00	R1 200,00	n/a	R400,00	n/a	n/a	n/a
Weighted average	n/a	R224,35	R1 200,00	n/a	R400,00	n/a	n/a	n/a

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		11. Intangible assets		
740	704	**Intangible assets**	704	740
3 913	3 724	Cost	3 724	3 913
(3 173)	(3 020)	Accumulated amortisation and impairment	(3 020)	(3 173)
		Comprising:		
		Finite life intangible assets		
740	704	Software and licences: carrying value*	704	740
3 913	3 724	**Cost**	3 724	3 913
3 883	3 913	Balance at the beginning of the year	3 913	3 883
5	51	Additions	51	5
(24)	(473)	Disposals	(473)	(24)
49	233	Transfers from property, plant and equipment (refer note 9)	233	49
(3 173)	(3 020)	**Accumulated amortisation and impairment**	(3 020)	(3 173)
(2 994)	(3 173)	Balance at the beginning of the year	(3 173)	(2 994)
24	441	Disposals	441	24
(205)	(284)	Amortisation (refer note 3)	(284)	(205)
5	(4)	(Impairment)/reversal of impairment (refer note 4.2.2)	(4)	5
(3)	—	Transfers from property, plant and equipment (refer note 9)	—	(3)

* *Includes capital-work-in-progress of R89 million (2022: R162 million).*

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		12. Investments in subsidiaries (refer note 37)		
—	—	Shares at carrying value		
—	—	Amounts owing by subsidiaries		
—	—			
—	—	Provision for impairment and losses		
—	—			
		13. Investments in associates and joint ventures (refer note 37)		
8	8		73	93
8	8	Balance at the beginning of the year	93	108
—	—	Share of profit/(loss)	14	(6)
—	—	Dividends received	(34)	(9)
8	8	Directors' valuation of unlisted investments in associates and joint ventures	73	93
		Income/(loss) from associates and joint ventures	14	(6)

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14. Derivative financial assets and liabilities

Both the Company and the Group use approved financial instruments, in particular forward exchange contracts, cross-currency swaps and interest rate swaps, to hedge the financial risks associated with underlying business activities. All derivative financial instruments are measured at fair value with gains or losses taken to profit or loss or other comprehensive income – where cash flow hedge accounting is applied.

The methods used to measure financial assets and financial liabilities carried at fair value are disclosed in note 36, together with a description of the Group's financial instrument risks, and risk management objectives and policies.

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
7 281	3 418	**Derivative financial assets**	3 418	7 281
8 100	7 281	Opening balance	7 281	8 100
(1 171)	4 546	Fair value adjustments	4 546	(1 171)
352	(8 409)	Derivatives settled and raised	(8 409)	352
1 507	583	**Derivative financial liabilities**	583	1 507
2 427	1 507	Opening balance	1 507	2 427
265	(259)	Fair value adjustments	(259)	265
(1 185)	(665)	Derivatives settled and raised	(665)	(1 185)
(1 436)	4 805	**Net fair value adjustments**	4 805	(1 436)
288	713	Derivative fair value adjustments (refer note 5)[1]	713	288
(1 663)	(1 226)	Finance costs	(1 226)	(1 663)
(61)	5 318	Recognised in other comprehensive income (refer note 22)	5 318	(61)
		Comprise the following financial instruments:		
787	3 418	**Non-current assets**	3 418	787
787	3 418	Cross-currency swaps and options	3 418	787
6 494	—	**Current assets**	—	6 494
30	—	Forward exchange contracts	—	30
6 464	—	Cross-currency swaps and options	—	6 464
1 458	567	**Non-current liabilities**	567	1 458
2	—	Forward exchange contracts	—	2
1 456	567	Interest rate swaps and options	567	1 456
49	16	**Current liabilities**	16	49
49	16	Forward exchange contracts	16	49
Ratio	Ratio	**Hedge accounting**	Ratio	Ratio
1:1	1:1	Hedge ratio	1:1	1:1

The hedged items and hedging instruments are denominated in the same currencies and have the same nominal values, resulting in a hedge ratio of 1:1 on all hedges.

[1] *Comprised of hedge ineffectiveness gain of R260 million (2022: R75 million loss) from cash flow hedges, fair value gains of R108 million (2022: R48 million loss) on forward exchange contracts to which fair value hedge accounting was applied, and fair value gains on economic hedges to which hedge accounting was not applied of R345 million (2022: R411 million gain).*

14. Derivative financial assets and liabilities continued

Fair value hedges of firm commitments

The Group entered into fair value hedges of the foreign exchange risk on firm commitments to import items of property, plant and equipment. The Group settles the contract price of these items by making predetermined progress payments (in foreign currency) to the relevant suppliers as specified milestones are achieved.

At 31 March 2023, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed to be effective. The ineffective portion of the hedge has been recorded in profit and loss- fair value adjustments.

The fair values of these forward exchange contracts held as hedging instruments at 31 March 2023 are as follows:

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
(19)	(16)	Currency bought forward – United States Dollar loss	(16)	(19)
(2)	—	Currency bought forward – Euro loss	—	(2)

The net fair value loss recognised in profit and loss on these fair value hedges during the year was a R4 million loss (2022: nil). This net fair value adjustment comprised of a gain of R36 million (2022: R48 million gain) with respect to foreign exchange risk on the firm commitments, and a loss of R40 million (2022: R48 million loss) on the forward exchange contracts.

The nominal values of these forward exchange contracts at 31 March 2023 are as follows:

Company 2022	Company 2023		Group 2023	Group 2022
		Currency bought forward – Rand equivalent		
652	376	United States Dollar	376	652
52	—	Euro	—	52
million				million
		Currency bought forward – foreign currency		
41	20	United States Dollar	20	41
3	—	Euro	—	3

Cash flow hedges

Interest rate swaps

On 31 March 2023, the Group was party to interest rate swap contracts, which are designated as cash flow hedges of the interest rate risks associated with rand-denominated borrowings detailed in the table below:

Lender	Hedge counterparty	Nominal R million	Hedge interest rate payable	Hedge interest rate receivable	Maturity date
ABSA Bank Ltd	Nedbank	877	11,83 fixed	3 month JIBAR + 2,6%	02-Dec-2030
Bank of China – JHB Branch	Nedbank	1 107	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Nedbank Ltd	Nedbank	372	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Futuregrowth Asset Management (Pty) Ltd	Nedbank	372	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Old Mutual Life Assurance Co (SA) Ltd (R217 million) and Old Mutual Specialised Finance (Pty) Ltd (R155 million)	Nedbank	372	11,83 fixed	3 month JIBAR + 2,7%	02-Dec-2030
ABSA Bank Ltd	Nedbank	877	12,27 fixed	3 month JIBAR + 2,6%	02-Dec-2030
Bank of China – JHB Branch	Nedbank	1 107	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Nedbank Ltd	Nedbank	1 860	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Old Mutual Life Assurance Co (SA) Ltd (R316 million) and Old Mutual Specialised Finance (Pty) Ltd (R234 million)	TSDBF Old Mutual*	550	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Futuregrowth Asset Management (Pty) Ltd	Nedbank	744	12,27 fixed	3 month JIBAR + 2,7%	02-Dec-2030
Investec Bank Ltd	TSDBF Old Mutual*	3 496	12,07 fixed	3 month JIBAR + 2,0%	22-Feb-2028
Liberty Group Ltd	TSDBF Old Mutual*	924	11,15 fixed	3 month JIBAR + 1,75%	19-Jul-2032
Old Mutual Life Assurance Company of South Africa (OMLACSA) (R434 million) and Old Mutual Specialised Finance (Pty) Ltd (OMSFIN) (R310 million)	Nedbank	744	11,15 fixed	3 month JIBAR + 2,05%	31-Mar-2033
Standard Bank Corporate Investment Bank	TSDBF Old Mutual*	300	11,15 fixed	3 month JIBAR + 1,65%	21-Aug-2024
Total exposure		**13 702**			

* *These interest-rate swap contracts were entered into with Transnet Second Defined Benefit Fund and have a carrying value of R224 million (2022: R582 milion).*

The terms of the interest rate swaps closely match those of the rand-denominated borrowings they hedge and were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit and loss for the year with respect to these hedges was a R308 million gain (2022: R22 million gain). The amount recycled to profit and loss to offset the hedged risks was a R567 million loss (2022: R986 million loss), included in finance costs.

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14. Derivative financial assets and liabilities continued

Cash flow hedges continued

Cross-currency interest rate swaps

On 31 March 2023, the Group was party to cross-currency interest rate swap contracts which are designated as cash flow hedges of the foreign exchange and interest rate risks associated with foreign currency-denominated borrowings detailed in the table below:

Lender	Hedge counterparty	Nominal USD million	Hedge interest rate payable	Hedge interest rate receivable	Maturity date
TNUS 28 GMTN US Dollar bond					
Tranche 1	RMB/Division of FirstRand Bank Ltd	200	13,72% fixed (ZAR)	8,25% fixed (USD)	7-Feb-2028
Tranche 2	Goldman Sachs	300	13,075% fixed (ZAR)	8,25% fixed (USD)	7-Feb-2028
Tranche 3	Deutsche Bank	500	13,64% fixed (ZAR)	8,25% fixed (USD)	7-Feb-2028
Deutsche Bank SOFR loan					
Tranche 1	JP Morgan	435	SOFR + 5,33%	SOFR + 4,65129%	21-Jun-2027
Tranche 2	RMB/Division of FirstRand Bank Ltd	250	SOFR + 5,26%	SOFR + 4,65129%	21-Jun-2027
China Development Bank (CDB)					
Loan 1	JPMorgan Chase Bank – JHB Branch	227	3-month JIBAR + 4,35%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 2	JPMorgan Chase Bank – JHB Branch	11	3-month JIBAR + 4,33%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 3	JPMorgan Chase Bank – JHB Branch	10	3-month JIBAR + 4,365%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 4	JPMorgan Chase Bank – JHB Branch	5	3-month JIBAR + 4,360%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 5	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 4,31%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 6	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 4,30%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 7	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 4,295%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 8	JPMorgan Chase Bank – JHB Branch	12	3-month JIBAR + 4,17%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 9	JPMorgan Chase Bank – JHB Branch	12	3-month JIBAR + 4,25%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 10	JPMorgan Chase Bank – JHB Branch	21	3-month JIBAR + 4,07%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 11	JPMorgan Chase Bank – JHB Branch	6	3-month JIBAR + 4,01%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 12	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 3,97%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 13	JPMorgan Chase Bank – JHB Branch	10	3-month JIBAR + 4,01%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 14	JPMorgan Chase Bank – JHB Branch	20	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 15	JPMorgan Chase Bank – JHB Branch	8	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 16	JPMorgan Chase Bank – JHB Branch	10	3-month JIBAR + 3,96%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 17	JPMorgan Chase Bank – JHB Branch	5	3-month JIBAR + 3,995%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 18	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 4,00%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 19	JPMorgan Chase Bank – JHB Branch	7	3-month JIBAR + 3,94%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 20	JPMorgan Chase Bank – JHB Branch	17	3-month JIBAR + 3,88%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 21	JPMorgan Chase Bank – JHB Branch	10	3-month JIBAR + 3,89%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 22	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 3,89%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 23	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 3,88%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 24	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 3,91%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 25	JPMorgan Chase Bank – JHB Branch	13	3-month JIBAR + 3,86%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 26	JPMorgan Chase Bank – JHB Branch	10	3-month JIBAR + 3,94%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 27	JPMorgan Chase Bank – JHB Branch	5	3-month JIBAR + 3,87%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 28	JPMorgan Chase Bank – JHB Branch	13	3-month JIBAR + 3,82%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 29	JPMorgan Chase Bank – JHB Branch	21	3-month JIBAR + 3,775%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 30	JPMorgan Chase Bank – JHB Branch	23	3-month JIBAR + 3,78%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 31	JPMorgan Chase Bank – JHB Branch	11	3-month JIBAR + 3,79%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 32	JPMorgan Chase Bank – JHB Branch	4	3-month JIBAR + 3,80%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 33	JPMorgan Chase Bank – JHB Branch	7	3-month JIBAR + 3,78%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 34	JPMorgan Chase Bank – JHB Branch	15	3-month JIBAR + 3,71%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 35	JPMorgan Chase Bank – JHB Branch	4	3-month JIBAR + 3,72%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 36	JPMorgan Chase Bank – JHB Branch	14	3-month JIBAR + 3,79%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 37	JPMorgan Chase Bank – JHB Branch	13	3-month JIBAR + 3,85%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 38	JPMorgan Chase Bank – JHB Branch	7	3-month JIBAR + 3,84%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 39	JPMorgan Chase Bank – JHB Branch	6	3-month JIBAR + 3,82%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 40	JPMorgan Chase Bank – JHB Branch	32	3-month JIBAR + 3,66%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Loan 41	JPMorgan Chase Bank – JHB Branch	8	3-month JIBAR + 3,56%	3-month LIBOR + 2,57% (USD)	12-Jun-2030
Total exposure		**2 397**			

14. Derivative financial assets and liabilities continued

The terms of the cross-currency interest rate swaps closely match those of the foreign currency-denominated borrowings they hedge and were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit and loss for the year with respect to these hedges was a R90 million gain (2022: R97 million loss). The main source of hedge ineffectiveness in the hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the swaps, which is not reflected in the fair value of the hedged items attributable to changes in the hedged risks. No other sources of ineffectiveness emerged from these hedging relationships.

The amount recycled to profit and loss to offset the hedged risks was a R4 713 million gain (2022: R898 million loss), included in finance costs.

The cash flows are projected to occur:

Semi-annually in July and January until February 2028 on the TNUS28 bond hedge;
Semi-annually in June and December until June 2027 on the Deutsche hedge; and
Quarterly until June 2030 on the CDB hedge.

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		The fair values of the cross-currency interest rate swaps at 31 March 2023 are as follows:		
834	2 846	CDB	2 846	834
6 417	—	TNUS22	—	6 417
—	213	TNUS28	213	—
—	359	Deutsche Bank	359	—
		The nominal amounts of the cross-currency interest rate swaps at 31 March 2023 are as follows:		
26 506	38 655	South African Rand	38 655	26 506
1 811	2 397	United States Dollar	2 397	1 811
		Day-one loss		
796	692	Loss at the beginning of the year	692	796
—	705	Day one loss recognised	705	—
(104)	(139)	Amortised to profit and loss	(139)	(104)
692	1 258	Loss at the end of the year	1 258	692
		The unamortised day-one loss is included within the long-term financial assets.		

15. Long-term loans and advances

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
—	—		—	—
—	—	Carrying value at the beginning of the year	—	—
—	—	Impairment	—	—
		Comprising:		
—	—	**Other loans and advances***	—	—
464	451	Gross carrying value	451	464
(464)	(451)	Impairment	(451)	(464)

* *Other loans and advances are measured at amortised cost, comprised of a loan to South African Express Airways SOC Ltd of which the full balance of R260 million (2022: R260 million) was provided for as irrecoverable and the FNB housing loans of which the full balance of R191 million (2022: R204 million) was provided for as irrecoverable.*

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Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		16. Other investments, long-term financial assets and other liabilities		
		16.1 Long-term investments and long-term financial assets		
1 394	2 262	Held at amortised cost[1]	2 259	946
220	128	Held at FVTPL[2]	128	220
1 614	2 390		2 387	1 166
		16.2 Short-term investments		
61	57	Short-term portion of other financial assets including resale agreements	57	61
61	57		57	61
		16.3 Other non-current liabilities		
3 371	3 318	Security of supply petroleum levy	3 318	3 371
358	2	Other[3]	2	358
3 729	3 320		3 320	3 729

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		17. Inventory		
		At weighted average cost		
3 334	3 785	Maintenance material	3 785	3 334
677	626	Consumables	626	677
29	32	Work-in-progress[1]	32	29
(425)	(788)	Provision for stock obsolescence[2]	(788)	(425)
3 615	3 655		3 655	3 615

[1] *Included in work in progress are costs for contract assets (refer note 27).*
[2] *The increase in the provision for stock obsolescence is due to slow moving items assessed at the end of the current financial year. No items of inventory have been pledged as security at 31 March 2023 (2022: nil).*

The cost of inventory used during the period of R1 209 million (2022: R803 million) and the increase in the provision for obsolescence of R363 million (2022: R106 million) are recognised in operating expenses (refer note 2 – material costs).

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		18. Trade and other receivables		
6 092	6 588	Trade receivables – net of allowances for credit losses	6 588	6 092
10 626	10 449	Trade receivables[1]	10 449	10 626
(4 534)	(3 861)	Allowance for expected credit losses	(3 861)	(4 534)
1 710	2 228	Prepayments and other amounts receivable – net of allowances for credit losses[2]	2 252	1 724
2 256	2 783	Prepayments and other amounts receivable	2 807	2 270
(546)	(555)	Reversal/(allowance) for expected credit losses	(555)	(546)
7 802	8 816		8 840	7 816
		Total allowance for expected credit losses		
(4 102)	(5 080)	Opening balance	(5 080)	(4 102)
(1 903)	(191)	Raised	(191)	(1 903)
925	855	Utilised	855	925
(5 080)	(4 416)	Closing balance	(4 416)	(5 080)
(4 534)	(3 861)	Allowance for expected credit losses on trade receivables from contracts with customers	(3 861)	(4 534)
(546)	(555)	Allowance for expected credit losses on other receivables	(555)	(546)
(5 080)	(4 416)	Total allowance for expected credit losses	(4 416)	(5 080)

[1] *Trade receivables include an amount of R4,3 billion (2022: R3,8 billion) relating to receivables which were discounted under a full recourse arrangement with a financial institution and did not meet the derecognition criteria in IFRS 9. The corresponding liability was included in trade payables and accruals (note 28).*
[2] *Other amounts receivable consist mainly of receivables relating to other income and straight-lining of lease debtors.*

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		19. Cash and cash equivalents		
3 467	13 528	Bank balances*	13 528	3 925
11	12	Cash	12	11
3 478	13 540		13 540	3 936

* *Included in bank balances are restricted TPL Rehabilitation Trust accounts amounting to nil (2022: R457 million).*

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for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		20. Assets classified as held-for-sale		
		Non-current assets classified as held-for-sale		
257	269	Property, plant and equipment[1]	269	257
229	257	Net carrying value at the beginning of the year	257	229
(37)	(11)	Disposals	(11)	(37)
65	23	Transferred from property, plant and equipment (refer note 9)	23	65
9	9	Investment property[2]	9	9
9	9	Fair value at the beginning of the year	9	9
41	48	Other investments[3]	48	41
38	41	Balance at the beginning of the year	41	38
3	7	Fair value movement during the year	7	3
307	326	**Total assets transferred to non-current assets classified as held-for-sale**	326	307

[1] *Property, plant and equipment classified as held-for-sale mainly relate to rolling stock and containers that are damaged, obsolete or no longer in use. These assets will be disposed of through the Transnet procurement policy via the reverse logistics process and auctioneers and is expected to be disposed of by 31 March 2024.*

[2] *Transnet is currently disposing of property that is classified as non-core, and hence is no longer required for mainline business, and is expected to be disposed of by 31 March 2024. The fair value measurements are categorised as level 3.*

[3] *Equity investment in Rumo Logistica Operadora Multi-model S.A. (Rumo), a Brazilian registered Company, and is expected to be disposed of by 31 March 2024 after the related administrative processes are resolved. The investment, previously accounted for as available-for-sale, was designated as at FVTOCI on initial application of IFRS 9. The fair value measurement is categorised as level 1 – refer note 36 for more detail.*

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 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		
12 661	18 498	18 497 986 310 ordinary par value shares of R1 each	18 498	12 661

5 837 000 000 ordinary shares were issued to the South African Government in the current financial year.

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

Capital management

The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence to support future growth of the business. Capital efficiency is measured in terms of returns on equity and the asset base, as well as the gearing ratio, which is monitored by the Board. The capital structure of the Group consists of equity attributable to the equity holder, the South African Government, comprising issued capital, non-distributable reserves and retained earnings as disclosed in notes 21 and 22. Other than loan covenants, Transnet SOC Ltd is not subject to any other externally imposed capital requirements.

Based on the significant capital investment plan of the Company, as well as its revenue-generating ability, the target debt to equity ratio will remain below the 50% limit that forms part of the Shareholder's Compact with the Shareholder Representative (2023: actual 43,6%).

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		22. Reserves		
61 384	64 421	**Revaluation reserve[1]**	64 421	61 384
7 804	8 168	**Revaluation of pipeline networks**	8 168	7 804
7 048	7 804	Balance at the beginning of the year	7 804	7 048
905	453	Revaluation during the year	453	905
—	(14)	Transfer to retained earnings	(14)	—
(149)	(75)	Decommissioning restoration liability adjustment	(75)	(149)
60 457	64 602	**Revaluation of port facilities**	64 602	60 457
56 403	60 457	Balance at the beginning of the year	60 457	56 403
4 092	4 240	Revaluation during the year	4 240	4 092
(179)	(253)	Transfer to retained earnings	(253)	(179)
141	158	Decommissioning restoration liability adjustment	158	141
11 371	12 072	**Revaluation of rail infrastructure**	12 072	11 371
4 734	11 371	Balance at the beginning of the year	11 371	4 734
6 643	772	Revaluation during the year	772	6 643
(6)	(71)	Transfer to retained earnings	(71)	(6)
4 378	3 338	**Revaluation of land, buildings and structures**	3 338	4 378
2 378	4 378	Balance at the beginning of the year	4 378	2 378
2 000	(1 040)	Fair value movement during the year	(1 040)	2 000
(22 626)	(23 759)	**Deferred tax impact of items relating to revaluation reserves**	(23 759)	(22 626)
24	29	**Revaluation to fair value[2]**	29	24
31	38	**Equity investment (Rumo Ltd) – revaluation to market value**	38	31
28	31	Balance at the beginning of the year	31	28
3	7	Fair value movement during the year	7	3
—	—	**Debt investment – revaluation to market value**	—	—
—	—	Balance at the beginning of the year	—	(5)
—	—	Fair value movement during the year	—	5
(7)	(9)	**Deferred tax impact of items relating to revaluation to market value**	(9)	(7)
2 590	2 601	**Actuarial gains on post-retirement benefit obligations[3]**	2 601	2 590
3 548	3 561	**Gross actuarial gains on post-retirement benefit obligations**	3 561	3 548
3 465	3 548	Balance at the beginning of the year	3 548	3 465
83	13	Gains arising during the year	13	83
(958)	(960)	**Deferred tax impact of net actuarial gains**	(960)	(958)

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

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

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

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for the year ended 31 March 2023

22. Reserves continued

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
(583)	(192)	**Cash flow hedging reserve[1]**	(192)	(583)
(821)	(284)	**Gross cash flow hedging reserve**	(284)	(821)
(816)	(821)	Balance at the beginning of the year	(821)	(816)
(61)	5 318	Gains/(losses) arising during the year	5 318	(61)
56	(4 781)	Transfer to foreign exchange differences	(4 781)	56
238	92	Deferred taxation impact of items relating to cash flow hedging reserve	92	238
250	250	**Other reserves[2]**	249	249
250	250	Share of pension fund surplus	249	249
67 324	62 006	**Retained earnings**	62 115	67 453
62 084	67 324	Balance at the beginning of the year	67 453	62 220
185	338	Transfers into retained earnings	338	185
5 055	(5 656)	(Loss)/profit for the year attributable to the equity holder	(5 676)	5 048
130 989	129 115		129 223	131 117

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

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

23. Employee benefits

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
776	729	**Post-retirement benefit obligations**	729	776
878	776	Balance at the beginning of the year	776	878
101	88	Income statement charge	88	101
(120)	(122)	Settlements during the year	(122)	(120)
(83)	(13)	Actuarial gains	(13)	(83)
		Comprising:		
—	—	Transport Pension Fund: Transnet Sub-fund (refer note 32.1.2)	—	—
—	—	Transnet Second Defined Benefit Fund (refer note 32.1.3)	—	—
53	50	Transnet Top Management Pensions (refer note 32.1.4)	50	53
355	327	Transnet Workmen's Compensation Act pensioners (refer note 32.1.5)	327	355
193	182	Transnet SATS Pensioners' post-retirement medical benefits (refer note 32.2.1)	182	193
175	170	Transnet employees post-retirement medical benefits (refer note 32.2.2)	170	175
776	729		729	776

23. Employee benefits continued

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
—	—	**Other post-retirement and medical benefits**	—	—
65	80	Balance at the beginning of the year	80	65
89	69	Income statement charge	69	89
(74)	(82)	Utilised during the year	(82)	(74)
80	67		67	80
(80)	(67)	*Less:* Short-term portion classified as current liabilities	(67)	(80)
—	—	**Leave pay**	—	—
2 621	2 419	Balance at the beginning of the year	2 419	2 621
431	548	Accruals recognised during the year	548	431
(633)	(521)	Utilised during the year	(521)	(633)
2 419	2 446		2 446	2 419
(2 419)	(2 446)	*Less:* Short-term portion classified as current liabilities	(2 446)	(2 419)
—	—	**Incentive bonuses**	—	—
109	27	Balance at the beginning of the year	27	109
297	277	Accruals recognised during the year	277	297
(271)	(224)	Utilised during the year	(224)	(271)
(108)	—	Reversal during the year	—	(108)
27	80		80	27
(27)	(80)	*Less:* Short-term portion classified as current liabilities	(80)	(27)
776	729	Total employee benefits	729	776

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

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

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

Notes to the annual financial statements

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24. Long-term borrowings (refer note 36)

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
92 301	78 729		78 729	92 301
77 626	92 301	Total long-term borrowings at the beginning of the year	92 301	77 626
9 959	32 762	Recognised in the reporting period	32 762	9 959
(125)	2 251	Foreign exchange differences	2 251	(125)
56	43	Amortisation of discount	43	56
4 785	(48 628)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings* (refer note 29)	(48 628)	4 785
		Made up as follows:		
		Unsecured liabilities		
77 534	56 862	Rand-denominated	56 862	77 534
44 504	37 574	Bonds at nominal value	37 574	44 504
(894)	(881)	Unamortised discounts	(881)	(894)
43 610	36 693	Bonds at carrying value[1]	36 693	43 610
33 924	20 169	Other unsecured liabilities[2]	20 169	33 924
—	17 734	**Foreign currency-denominated[3]**	17 734	—
—	17 734	Bonds at nominal value	17 734	—
—	—	Unamortised discounts	—	—
—	17 734	Bonds at carrying value	17 734	—
14 767	4 133	**Secured loans[4] and lease liabilities[5]**	4 133	14 767
4 477	4 133	Rand-denominated**	4 133	4 477
10 290	—	Foreign currency-denominated[6]	—	10 290
92 301	78 729	**Total long-term borrowings**	78 729	92 301

* *Includes the impact of the cash interest cover loan covenant breach as at the 31 March 2023, which resulted in affected loans of R32,7 billion in long-term borrowings being reclassified to short-term borrowings in the current reporting period. Transnet secured waivers from all the lenders affected by the covenant breach, with all matters appropriately closed.*

** *Includes lease liabilities of R1 741 million (2022: R1 575 million).*

1 *Rand denominated domestic bonds bear interest between 5,23% and 11,35% and are repayable over periods between the 2024 and 2041 financial years. Rand denominated Eurorand bonds bear interest between 10,0% and 13,5% and are repayable in 2028 and 2029 (refer note 36).*

2 *Rand denominated unsecured domestic loans are repayable over periods between 21 August 2024 and 31 March 2037, and bears interest at rates ranging between 8,865% and 12,648% with floating rates linked to JIBAR.*

3 *Foreign currency bonds are denominated in United States Dollar, is redeemable on 6 February 2028, and bears interest at a rate of 8,25%.*

4 *Rand denominated secured loans are repayable on 17 September 2029 and bear interest at rates ranging between 9,592% and 10,37%.*

5 *Rand denominated lease liabilities bear interest at rates ranging between 7,9% and 12,12% with all rates fixed. These liabilities are repayable over periods between 2024 and 2031 financial years.*

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

25. Provisions

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
10 007	10 268	**Comprising:**	10 268	10 007
9 597	10 007	Long-term provisions at the beginning of the year	10 007	9 597
3 670	4 567	Provisions recognised during the year and unwinding of discounts	4 567	3 670
(3 052)	(4 460)	Provisions utilised	(4 460)	(3 052)
(208)	154	Decrease/(increase) in short-term provisions classified as current liabilities	154	(208)
4 803	4 698	**Third-party claims**	4 698	4 803
4 358	4 803	Balance at the beginning of the year	4 803	4 358
1 603	838	Provisions recognised during the year	838	1 603
(1 158)	(943)	Utilised during the year	(943)	(1 158)
93	138	**Customer claims**	138	93
85	93	Balance at the beginning of the year	93	85
446	950	Provisions recognised during the year	950	446
(438)	(905)	Utilised during the year	(905)	(438)
2 311	2 769	**Decommissioning liabilities**	2 769	2 311
2 184	2 311	Balance at the beginning of the year	2 311	2 184
28	300	Provisions recognised during the year	300	28
198	208	Unwinding of discounts	208	198
(99)	(50)	Utilised during the year	(50)	(99)
3 784	3 404	**Environmental liabilities**	3 404	3 784
3 706	3 784	Balance at the beginning of the year	3 784	3 706
1 251	2 140	Provisions recognised during the year	2 140	1 251
77	32	Unwinding of discounts	32	77
(1 250)	(2 552)	Utilised during the year	(2 552)	(1 250)
—	—	**Restructuring**	—	—
24	—	Balance at the beginning of the year	—	24
(24)	—	Utilised during the year	—	(24)
15	104	**Other***	104	15
31	15	Balance at the beginning of the year	15	31
67	99	Provisions recognised during the year	99	67
(83)	(10)	Utilised during the year	(10)	(83)
11 006	11 113	**Total provisions**	11 113	11 006
999	845	*Less:* **Short-term provisions** classified as current liabilities	845	999
301	277	Third-party claims	277	301
93	138	Customer claims	138	93
591	328	Environmental liabilities	328	591
14	102	Other*	102	14
10 007	10 268	**Long-term provisions**	10 268	10 007

* *Other provisions include compensation for employees fund, uniform, clothing, repairs, maintenance and cleaning related provisions. These provisions are expected to be paid within one to two years of the reporting date.*

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25. Provisions continued

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

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

Decommissioning and environmental liabilities
The decommissioning provision arises for the Group's obligation for the dismantling and removal of an asset and to restore the site on which the asset is located. The provision for environmental rehabilitation is based on the estimated rehabilitation costs for quarries and historical contamination of land caused by asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese), fuel, rubble and ballast. The provisions are determined based on risk assessments on identified areas of contamination. The discount rates applied in determining the provision, the sensitivity of the provision amounts to changes in discount rates and the expected settlement dates are disclosed in the tables below.

	Discount rate	Expected payment dates
Decommissioning liability	6,50% – 12,74%	1 – 65 years
Environmental provisions	11,78% – 13,34%	1 – 20 years

Group and Company	2023 R million	2022 R million
Decommissioning liability	2 769	2 311
1% increase in discount rate	2 362	1 962
1% decrease in discount rate	3 319	2 787
Environmental provisions	3 404	3 784
1% increase in discount rate	3 285	3 619
1% decrease in discount rate	3 535	3 828

Restructuring
Provision for restructuring costs in terms of strategic plans. This provision was utilised in the prior reporting year.

26. Deferred tax liability

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
44 700	44 334	**Comprising:**	44 314	44 680
41 459	44 700	Opening balance	44 680	41 440
435	(1 649)	Income statement charge (refer note 8)	(1 649)	431
2 806	1 283	Raised in other comprehensive income (refer note 8.1)	1 283	2 809
		Analysis of major categories of temporary differences		
21 641	23 537	**Deferred tax assets**	23 557	21 661
3 028	2 874	Provisions	2 874	3 028
1 086	1 322	Employee benefit obligations	1 322	1 086
1 315	1 205	Revenue received in advance and deferred income	1 205	1 315
561	632	Capitalised lease liability	632	561
1 149	1 116	Doubtful debts	1 116	1 149
125	—	Cross-currency swaps	—	125
14 223	16 267	Estimated tax loss	16 267	14 223
154	121	Other	141	174
66 341	67 871	**Deferred tax liabilities**	67 871	66 341
208	222	Deferred expenditure	222	208
65 931	67 394	Property, plant and equipment	67 394	65 931
202	71	Future expenditure allowance	71	202
—	184	Cross-currency swaps	184	—
44 700	44 334	Net deferred tax liability	44 314	44 680

The deferred tax liability increased from the prior year. The increase was mainly as a result of the deferred tax impact on the revaluation of property, plant and equipment which has been recorded directly in equity, partially offset by the deferred tax impact on the loss for the year.

27. Contract assets and contract liabilities

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Contract assets		
		Contracts in progress at the statement of financial position date		
37	20	Engineering	20	37
614	702	Ports	702	614
651	722		722	651
—	—	*Less* allowance for expected credit losses	—	—
651	722		722	651
1 259	1 825	**Contract liabilities**	1 825	1 259

Contract assets relate to the Group's rights to consideration in respect of:

Engineering – revenue accrued in respect of work completed on engineering contracts but not yet billed at year-end, including retention debtors.

Ports – revenue accrued in respect of work on cargo and vessels at the ports but not yet invoiced at year-end.

Contract assets are reclassified to trade receivables when the rights become unconditional and the customer is invoiced.

Contract liabilities primarily relate to: (i) advance consideration received from customers, including cash customers, which is recognised as revenue in future periods upon satisfaction of the related performance obligations, and (ii) accrual for shortfalls in crude oil delivered to customers in the last few days before year-end, compared to intake volumes.

Contract liabilities are generally recognised in revenue within 12 months after the reporting date.

28. Trade payables and accruals

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
2 789	3 766	**Trade payables**	3 766	2 789
17 153	20 616	**Accruals**	20 616	17 156
10 680	12 302	Accrued expenditure	12 302	10 683
174	238	Deposits received	238	174
1 981	2 795	Accrued interest	2 795	1 981
1 235	1 425	Personnel costs	1 425	1 235
80	67	Other post-retirement and medical benefits (refer note 23)	67	80
2 419	2 446	Leave pay (refer note 23)	2 446	2 419
27	80	Incentive bonus (refer note 23)	80	27
15	7	SARS – withholding tax	7	15
542	1 256	SARS – value-added tax	1 256	542
19 942	24 382		24 382	19 945

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29. Short-term borrowings

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
51 515	36 537	Total short-term borrowings at the beginning of the year	36 537	51 515
9 964	18 543	Recognised in the reporting period	18 543	9 964
(20 062)	(52 997)	Repayments in the reporting period	(52 997)	(20 062)
(101)	349	Foreign exchange movement	349	(101)
6	278	Amortisation of discount	278	6
(4 785)	48 628	Current portion of long-term interest-bearing borrowings (refer note 24)*	48 628	(4 785)
36 537	51 338		51 338	36 537

Short-term borrowings comprise the Group's short-term position on bonds, loans and other financial instruments, net of related repayments.

Short-term borrowings include lease liabilities of R581 million (2022: R503 million).

Short-term borrowings bear interest at rates between 0% and 10,8%, is repayable over periods between April 2023 and March 2024 and are not guaranteed.

* *Includes the impact of the cash interest cover loan covenant breach as at the 31 March 2023, which resulted in affected loans of R32,7 billion in long-term borrowings being reclassified to short-term borrowings in the current reporting period. Transnet secured waivers from all the lenders affected by the covenant breach, with all matters appropriately closed.*

30. Commitments

30.1 Capital commitments[1]

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
44	546	Contracted for in US Dollars	546	44
29	—	Contracted for in Euros	—	29
2 525	7 710	Contracted for in SA Rands	7 710	2 525
2 598	8 256	Total capital commitments contracted for	8 256	2 598
2 597	8 256	Property, plant and equipment	8 256	2 597
1	—	Intangible assets	—	1
		Total capital commitments contracted for are expected to be incurred as follows:		
1 935	3 840	Within one year[2]	3 840	1 935
663	4 416	After one year, but not more than five years	4 416	663
2 598	8 256	Total capital commitments contracted for	8 256	2 598

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

[2] *Included in the capital commitments for property, plant and equipment is a contract for the purchase of various back-up power equipment, including installation services. Transnet paid the contractual amount of R549,6 million on 19 May 2023. The delivery and installation of the equipment is expected in the 2024 financial year.*

30.2 Lease commitments

The Group as lessee

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Maturity analysis of lease liabilities		
673	796	Less than one year	796	673
1 804	2 086	One to five years	2 086	1 804
45	40	More than five years	40	45
2 522	2 922	Total undiscounted lease liabilities	2 922	2 522
(444)	(600)	*Less:* Amount representing finance charges	(600)	(444)
2 078	2 322	Lease liabilities	2 322	2 078
503	581	Short-term lease liabilities	581	503
1 575	1 741	Long-term lease liabilities	1 741	1 575

Total cash payments made by the Group for leases during the financial year amounted to R608 million (2022: R599 million), including repayment of capital on lease liabilities, interest payments, variable lease payments not included in the measurement of the lease liability, as well as payments made under short-term leases and leases of low-value assets.

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

The Group leases motor vehicles and equipment, with average lease terms of one to five years. In some cases the Group has options to purchase the assets at the end of the lease term, or guarantees the residual value of leased assets at the end of the lease term. As at 31 March 2023, the Group did not expect any material payments under these options and guarantees which are not already included in the lease liability.

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

30. Commitments continued

30.2 Lease commitments continued

Variable lease payments

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

The Group as lessor

Lease income receivable

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

Future minimum rentals under operating leases are as follows:

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Property		
1 703	2 078	Less than one year	2 078	1 703
1 737	2 028	More than one year but less than two years	2 028	1 737
1 164	1 674	More than two years but less than three years	1 674	1 164
1 004	1 322	More than three years but less than four years	1 322	1 004
798	1 188	More than four years but less than five years	1 188	798
4 782	6 170	More than five years	6 170	4 782
11 188	14 460		14 460	11 188

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

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

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

31. Contingent liabilities, assets and guarantees

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Various contingent liabilities[1] where no material losses are expected to materialise:		
	6 805	Third-party claims	6 805	
		Various contingent assets[2] where the inflow of economic benefits is probable, but not virtually certain:		
	1 140	Insurance claims	1 140	
	1 706	Legal claims against third-parties	1 706	
	2 846		2 846	

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

[2] *Contingent assets relate mainly to various legal claims by the Group against third parties and insurance cover.*

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32. Post-retirement benefit obligations

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

32.1 Pension benefits

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

32.1.1 Transnet Retirement Fund

The fund is a defined contribution fund and all employees of the Group are eligible members of the fund. There were 49 836 members at 31 March 2023 (2022: 50 951). Actuarial valuations are performed regularly to determine the financial position of the fund. The last actuarial valuation was performed as at 31 March 2021 and the actuaries were satisfied with the status of the member's credit account as at that date. The total contributions for the current year constitute member contributions of R1 370 million (2022: R1 413 million) and employer contributions of R2 192 million (2022: R2 223 million).

32.1.2 Transport Pension Fund: Transnet Sub-fund

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

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

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

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

There were 3 871 members and pensioners at 31 March 2023 (2022: 3 997). The fund gives members the option to transfer to the Transnet Retirement Fund twice a year. No members opted to transfer to the Transnet Retirement Fund in the current year (2022: nil). The effect of the transfers, as applicable, are included under benefits paid in the reconciliations below.

The duration of the defined benefit obligation is estimated to be 7 years based on the current membership profile.

32. Post-retirement benefit obligations continued

32.1.2 Transport Pension Fund: Transnet Sub-fund continued

An actuarial valuation was performed at 31 March 2023 to determine the present value of the obligation based on the projected unit credit method.

	Company and Group 2023 R million	2022 R million
Discount rate	11,00%	10,13%
Inflation rate	6,44%	6,78%
Salary increase rate	7,44%	7,78%
Pension increase allowance	4,51%	4,75%

The results of the actuarial valuation are as follows:

	2023 R million	2022 R million
Benefit liability		
Present value of obligation	(3 018)	(2 922)
Fair value of plan assets	4 072	4 303
Surplus	1 054	1 381
Unrecognised asset	(1 054)	(1 381)
Net asset/(liability) recognised in the statement of financial position	—	—

The liability recognised for this fund relating to the Company amounts to nil (2022: nil).

The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.

	2023 R million	2022 R million
Net expense recognised in profit or loss		
Service cost	(9)	(11)
Net interest income	144	125
	135	114
Less: Interest on asset limit	(144)	(125)
	(9)	(11)
Actual return on plan assets	205	465
Total measurements recognised in other comprehensive income for the year	7	8
– net actuarial (loss)/gain	(464)	78
– interest on asset limit	144	125
– asset not recognised	327	(195)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	1 381	1 186
Profit or loss as above	(9)	(11)
Remeasurements – actuarial (loss)/gain	(464)	78
– interest on asset limit	144	125
Contributions paid by employer	2	3
Closing net asset	1 054	1 381
Asset not recognised	(1 054)	(1 381)
Net asset/(liability) recognised in the statement of financial position	—	—

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32. Post-retirement benefit obligations continued

32.1.2 Transport Pension Fund: Transnet Sub-fund continued

	Company and Group	
	2023 R million	2022 R million
Reconciliation of movement in benefit liability		
Opening benefit liability	(2 922)	(2 998)
Service cost	(9)	(11)
Contributions by members	(1)	(2)
Interest cost	(288)	(299)
Actuarial (loss)/gain	(237)	36
– change in economic assumptions	235	(10)
– experience adjustments	(472)	46
Benefits paid	439	315
Bonus award paid to pensioners	—	37
	(3 018)	(2 922)
Transfer to the retirement fund	—	—
Closing benefit liability	(3 018)	(2 922)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	4 303	4 184
Interest income	432	424
Actuarial (loss)/gain	(227)	42
Contributions by employer and members	3	5
Benefits paid	(439)	(352)
	4 072	4 303
Transfer to the retirement fund	—	—
Closing fair value of plan assets	4 072	4 303

The estimated contributions (based on current year contributions) by both employer and members for the year beginning 1 April 2023 amount to R3 million (2022: R5 million).

Sensitivity analysis

	2023 R million	2022 R million
Closing benefit liability based on (±)1% change in the discount rate:		
10,00% (2022: 9,13%)	(3 223)	(3 114)
12,00% (2022: 11,13%)	(2 834)	(2 750)
Closing benefit liability based on (±)1% change in the inflation rate:		
5,44% (2022: 5,78%)	(2 876)	(2 806)
7,44% (2022: 7,78%)	(3 172)	(3 046)

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

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

	2023	2022
Listed		
Domestic equities	6,8%	9,6%
International equities	8,6%	10,3%
Domestic bonds	44,4%	70,9%
Real estate (local)	1,9%	2,2%
	61,7%	93,0%
Non-listed		
Domestic private equity	0,2%	0,5%
Derivatives (local)	22,1%	3,4%
Cash and cash equivalents	16,0%	3,1%
	38,3%	7,0%
Total	100,0%	100,0%

32. Post-retirement benefit obligations continued

32.1.3 Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of existing retired members and qualifying beneficiaries. The fund includes the spouses of black pensioners who retired from Transnet between 16 December 1974 and 1 April 1986. The pension fund is a final salary defined benefit plan with a guarantee by the employer, including a spouses' death benefit of 70% of final pension. The pension obligation is fully funded, and the plan is currently in a net asset (surplus) position as disclosed below. The Board of Trustees is responsible for the management of the fund, the investment strategy and administration of benefits.

There were 8 314 members at 31 March 2023 (2022: 9 399). This excludes widows and children of pensioners. The all-inclusive membership is 34 754 at 31 March 2023 (2022: 37 506). The duration of the defined benefit obligation is estimated to be 5,5 years based on the current membership profile.

An actuarial valuation was performed at 31 March 2023 to determine the present value of the obligation based on the projected unit credit method.

	Company and Group	
	2023 R million	2022 R million
The principal assumptions applied in determining the defined benefit liability are as follows:		
Discount rate	10,76%	9,94%
Inflation rate	6,52%	6,85%
Pension increase allowance	4,56%	4,80%
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligation	(8 872)	(9 835)
Fair value of plan assets	12 743	13 848
Surplus	3 871	4 013
Unrecognised asset	(3 871)	(4 013)
Net asset/(liability) recognised in the statement of financial position	—	—
The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.		
Net expense recognised in profit or loss		
Service cost	—	—
Net interest income	399	333
	399	333
Less: Interest on asset limit	(399)	(333)
	—	—
Actual return on plan assets	702	1 383
Total measurements recognised in other comprehensive income for the year	—	—
– net actuarial (loss)/gain	(541)	305
– interest on asset limit	399	333
– net asset not recognised	142	(638)
Movements in the net asset/(liability) recognised in the statement of financial position		
Opening net asset	4 013	3 375
Profit or (loss) as above	—	—
Remeasurements – actuarial (loss)/gain	(541)	305
– interest on asset limit	399	333
Closing net asset	3 871	4 013
Asset not recognised	(3 871)	(4 013)
Net asset/(liability) recognised in the statement of financial position	—	—

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32. Post-retirement benefit obligations continued

32.1.3 Transnet Second Defined Benefit Fund continued

	Company and Group	
	2023 R million	2022 R million
Reconciliation of movement in benefit liability		
Opening benefit liability	(9 835)	(10 960)
Interest cost	(906)	(988)
Actuarial gain	62	243
– change in economic assumptions	517	106
– experience adjustments	(455)	137
Benefits paid	1 807	1 870
Closing benefit liability	(8 872)	(9 835)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	13 848	14 335
Interest income	1 305	1 321
Actuarial (loss)/gain	(603)	62
Benefits paid	(1 807)	(1 870)
Closing fair value of plan assets	12 743	13 848

The estimated contributions (based on current year contributions) by both employer and members for the year beginning 1 April 2023 amount to nil (2022: nil).

	2023 R million	2022 R million
Sensitivity analysis		
Closing benefit liability based on (±)1% change in the discount rate:		
9,76% (2022: 8,94%)	(9 351)	(10 406)
11,76% (2022: 10,94%)	(8 438)	(9 324)
Closing benefit liability based on (±)1% change in the inflation rate:		
5,52% (2022: 5,85%)	(8 544)	(9 508)
7,52% (2022: 7,85%)	(9 227)	(10 185)

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

The major categories of plan assets as a % of total plan assets are:	2023	2022
Listed		
Domestic equities	17,6%	9,9%
International equities	9,7%	6,3%
Domestic bonds	67,9%	59,6%
Alternative assets	0,3%	0,0%
	95,5%	75,8%
Non-listed		
Domestic private equity	0,0%	1,9%
Domestic bonds	2,0%	0,0%
Derivatives (local)	(3,6)%	3,7%
Cash and cash equivalents	6,1%	18,6%
	4,5%	24,2%
Total	100,0%	100,0%

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

32. Post-retirement benefit obligations continued

32.1.4 Top Management pensions

The Top Management Pensions are additional benefits to top up pensions received in order to eliminate the effects of any early retirement and resignation penalties applied under the Group's existing pension fund schemes to management appointed prior to 1 April 1999. The benefits are dependent on the contractual arrangement between the individual and Transnet. The benefits are paid through the Transnet Second Defined Benefit Pension Fund and recovered from Transnet. There are no plan assets to fund the obligation.

There were 296 members at 31 March 2023 (2022: 307). The duration of the defined benefit obligation is estimated to be 4,5 years based on the current membership profile.

An actuarial valuation was performed at 31 March 2023 to determine the present value of the obligation based on the projected unit credit method.

	Company and Group	
	2023 R million	2022 R million
The principal assumptions applied in determining the defined benefit liability are as follows:		
Discount rate	10,48%	9,78%
Pension increase allowance	2,00%	2,00%
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligations	50	53
Liability recognised in the statement of financial position	50	53
Net expense recognised in profit or loss		
Interest cost	(5)	(4)
	(5)	(4)
Actuarial loss recognised in other comprehensive income for the year	(3)	(3)
Reconciliation of movement in benefit liability		
Opening benefit liability	(53)	(54)
Expense as above	(5)	(4)
Actuarial loss	(3)	(3)
– change in economic assumptions	1	4
– experience adjustments	(4)	(7)
Benefits paid	11	8
Benefit liability at year-end	(50)	(53)

The estimated contributions (based on current year contributions) for the year beginning 1 April 2023 amount to R11 million (2022: R8 million).

	2023 R million	2022 R million
Sensitivity analysis		
Closing benefit liability based on (±)1% change in the discount rate:		
9,48% (2022: 8,78%)	(53)	(56)
11,48% (2022: 10,78%)	(48)	(51)

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32. Post-retirement benefit obligations continued

32.1.5 Workmen's Compensation Act pensioners fund

The Workmen's Compensation Pension Fund Act benefits are provided in accordance with the Workmen's Compensation Act and relates to the pension benefits that the Company pays to current and former employees who were disabled whilst in service prior to the corporatisation of Transnet in 1990. The benefits are paid through the Transnet Second Defined Benefit Pension Fund and recovered from Transnet. There are no plan assets to fund the obligation.

There were 721 members at 31 March 2023 (2022: 756). The duration of the defined benefit obligation is estimated to be 7,6 years based on the current membership profile.

An actuarial valuation was performed at 31 March 2023 to determine the present value of the obligation based on the projected unit credit method.

	Company and Group 2023 R million	Company and Group 2022 R million
The principal assumptions applied in determining the defined benefit liability are as follows:		
Discount rate	11,27%	10,50%
Pension increase	6,70%	6,67%
Inflation rate	6,70%	6,67%
The results of the actuarial valuation are as follows:		
Benefit liability		
Present value of obligations	(327)	(355)
Liability recognised in the statement of financial position	(327)	(355)
Net expense recognised in profit or loss		
Interest cost	(36)	(39)
	(36)	(39)
Actuarial gain recognised in other comprehensive income for the year	16	15
Reconciliation of movement in benefit liability		
Opening benefit liability	(355)	(368)
Interest cost	(36)	(39)
Actuarial gains	16	15
– change in economic assumptions	17	(7)
– experience adjustments	(1)	22
Benefits paid	48	37
Benefit liability at year-end	(327)	(355)

The estimated contributions (based on current year contributions) for the year beginning 1 April 2023 amount to R48 million (2022: R37 million).

	2023 R million	2022 R million
Sensitivity analysis		
Closing benefit liability based on (±)1% change in the discount rate:		
10,27% (2022: 9,50%)	(351)	(383)
12,27% (2022: 11,50%)	(306)	(331)
Closing benefit liability based on (±)1% change in the inflation rate:		
5,70% (2022: 5,67%)	(305)	(330)
7,70% (2022: 7,67%)	(352)	(383)

32.1.6 HIV/Aids benefits

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

32. Post-retirement benefit obligations continued

32.2 Post-retirement medical benefits

SATS pensioners' post-retirement medical benefits

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

Transnet employees' post-retirement medical benefits

This includes the current and past employees of Transnet who are members of Transnet accredited medical schemes, namely Transnet's in-house medical aid, Transmed Medical Fund, Bestmed, Bonitas, Discovery Health and Sizwe. Membership is voluntary. The board of trustees of Transmed Medical Fund are reponsible for the governance of the fund including monitoring the performance of all contract service providers. Transnet subsidises members at a flat contribution of R213 per month per member family. The fund is governed by the Medical Schemes Act.

Actuarial valuations are obtained annually for both post-retirement medical benefit obligations based on the projected unit credit method. There are no plan assets held to fund the obligations.

In aggregate, there were 1 971 members at 31 March 2023 (2022: 1 921). The duration of the post-retirement defined medical benefit obligations is estimated to be 7,5 years based on the current membership profile.

32.2.1 SATS pensioners

	Company and Group 2023 R million	Company and Group 2022 R million
The principal assumptions applied in determining the defined benefit liability are as follows:		
Discount rate	10,48%	10,03%
Benefit liability		
Present value of obligations	(182)	(193)
Liability recognised in the statement of financial position	(182)	(193)
Net expense recognised in profit or loss		
Interest cost	(17)	(21)
	(17)	(21)
Actuarial (loss)/gain recognised in other comprehensive income for the year	(16)	8
Reconciliation of movement in benefit liability		
Opening benefit liability	(193)	(235)
Interest cost	(17)	(21)
Benefits paid	44	55
Actuarial (loss)/gain	(16)	8
– change in economic assumptions	3	1
– experience adjustments	(19)	7
Closing benefit liability	(182)	(193)

The estimated contributions (based on current year benefits paid) for the year beginning 1 April 2023 amount to R44 million (2022: R55 million).

The medical inflation has no impact on the aggregate current service cost, the interest cost and the defined benefit liability. The sensitivity of the liability to a change in the discount rate is as follows:

	2023 R million	2022 R million
Sensitivity analysis		
Closing benefit liability based on (±)1% change in the discount rate:		
9,48% (2022: 9,03%)	(189)	(200)
11,48% (2022: 11,03%)	(175)	(186)

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32. Post-retirement benefit obligations continued

	Company and Group	
	2023 R million	2022 R million
32.2.2 Transnet employees		
Discount rate	10,48%	10,03%
Benefit liability		
Present value of obligations	(170)	(175)
Liability recognised in the statement of financial position	(170)	(175)
Net expense recognised in profit or loss		
Service cost	(4)	(5)
Interest cost	(17)	(21)
	(21)	(26)
Actuarial gain recognised in other comprehensive income for the year	9	55
Reconciliation of movement in benefit liability		
Opening benefit liability	(175)	(221)
Expense as above	(21)	(26)
Benefits paid	17	17
Actuarial gain	9	55
– change in economic assumptions	8	3
– experience adjustments	1	52
Closing benefit liability	(170)	(175)

The estimated contributions (based on current year benefits paid) for the year beginning 1 April 2023 amount to R17 million (2022: R17 million).

The medical inflation has no impact on the aggregate current service cost, the interest cost and the defined benefit liability. The sensitivity of the liability to a change in the discount rate is as follows:

	2023 R million	2022 R million
Sensitivity analysis		
Closing benefit liability based on (±)1% change in the discount rate:		
9,48% (2022: 9,03%)	(189)	(193)
11,48% (2022: 11,03%)	(156)	(160)

Exposure to risks

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

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

33. Related-party transactions

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

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

Company			Group	
2022 R million	2023 R million		2023 R million	2022 R million
		Services rendered		
639	3 193	Major public enterprises	3 193	639
1 097	1 933	Other public enterprises	1 933	1 097
817	782	National Government business enterprises	782	817
2	51	Associates	51	2
22	—	Subsidiaries	—	22
2 577	5 959		5 959	2 577
		Services received		
3 618	4 182	Major public enterprises	4 182	3 618
1 001	1 529	Other public enterprises	1 529	1 001
3 953	4 459	National Government business enterprises	4 459	3 953
8 572	10 170		10 170	8 572
		Amount due (to)/from		
(6 402)	(8 958)	Major public enterprises	(8 958)	(6 402)
(415)	(222)	Other public enterprises	(222)	(415)
(1 466)	(3 370)	National Government business enterprises	(3 370)	(1 466)
—	1	Associates	1	—
381	—	Subsidiaries	—	—
(7 902)	(12 549)		(12 549)	(8 283)

During the year the Group reversed R838 million (2022: R226 million raised) in relation to provisions and write-offs of bad debts on related parties and at year-end the Group had a provision of R403 million (2022: R1 241 million) against debtors pertaining to related parties.

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

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

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

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

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

Transnet's significant related parties include Eskom and Prasa.

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for the year ended 31 March 2023

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		34. Cash flow information		
		34.1 Cash generated from operations		
5 490	(7 305)	(Loss)/profit before tax	(7 325)	5 489
10 354	11 937	Finance costs (refer note 34.3)	11 937	10 354
(112)	(186)	Finance income (refer note 7)	(186)	(126)
(9)	(34)	Dividend income (refer note 4.3)	—	—
9 864	17 370	Elimination of non-cash items	17 390	9 884
14 847	16 098	– Depreciation, amortisation and derecognition (refer note 3)	16 098	14 847
101	88	– Increase in provision for employee benefits	88	101
415	(885)	– (Reversal of impairment)/impairment of trade and other receivables and loans and advances (refer note 4.2.1)	(885)	415
2 124	4 413	– Impairment of property, plant and equipment (refer note 4.2.2)	4 413	2 124
(5)	4	– Impairment/(reversal of impairment) of intangible assets (refer note 4.2.2)	4	(5)
—	75	– Impairment of investment property (refer note 4.2.2)	75	—
667	(219)	– Movement in provisions and other non-current liabilities	(219)	667
—	—	– (Income)/loss from associates and joint ventures (refer note 13)	(14)	6
1 431	(4 268)	– Fair value adjustments on derivatives	(4 268)	1 431
(25)	92	– Fair value adjustments on other financial assets (refer note 5)	92	(25)
(226)	2 600	– Unrealised foreign exchange movements	2 600	(226)
137	82	– Loss on disposal of property, plant and equipment (refer note 2)	82	137
—	4	– Loss on disposal of intangible assets (refer note 2)	4	—
57	52	– Discount on bonds amortised (refer note 6)	52	57
106	363	– Provision for inventory obsolescence	363	106
1	(1)	– Release of firm commitments and foreign exchange adjustment (refer note 9)	(1)	1
19	37	– Decommissioning liability (refer note 9)	37	19
(9 814)	(1 054)	– Fair value adjustment of investment property (refer note 5)	(1 054)	(9 814)
(92)	(283)	– Movement in lease smoothing and long-term receivables	(283)	(92)
35	91	– Fees relating to borrowings	91	35
104	139	– Amortisation of loss on derivatives (refer note 14)	139	104
(18)	(58)	– Other non-cash items*	(24)	(4)
25 587	21 782		21 816	25 601
		34.2 Changes in working capital		
(172)	(519)	Increase in inventories	(519)	(172)
616	(125)	(Increase)/decrease in trade, other receivables and contract assets	(135)	602
3 026	4 192	Increase in trade payables, accruals and contract liabilities	4 189	3 027
3 470	3 548		3 535	3 457
		34.3 Finance costs		
10 684	12 187	Finance costs	12 187	10 684
2	42	Net foreign exchange gain on translation	42	2
(275)	(240)	Unwinding of discounts on provisions	(240)	(275)
(57)	(52)	Discounts on bonds amortised	(52)	(57)
10 354	11 937		11 937	10 354
105	(814)	(Increase)/decrease in accrued interest	(814)	105
(479)	(160)	Deferred interest	(160)	(479)
9 980	10 963		10 963	9 980

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		34. Cash flow information continued		
		34.4 Tax paid		
—	—	Balance at the beginning of the year	2	(1)
—	—	Tax as per income statements	—	(10)
—	—	Balance at the end of the year	(2)	(2)
—	—		—	(13)
		35. Headline earnings		
5 055	(5 656)	(Loss)/profit for the year attributable to the equity holder	(5 676)	5 048
137	82	Loss on disposal of property, plant and equipment (refer note 2)	82	137
-	4	Loss on disposal of intangible assets (refer note 2)	4	—
(9 814)	(1 054)	Fair value adjustments on investment property (refer note 5)	(1 054)	(9 814)
2 119	4 492	Impairment of non-financial assets (refer note 4.2.2)	4 492	2 119
(2 503)	(2 132)	**Headline earnings before tax effects**	(2 152)	(2 510)
		Tax effects		
(37)	(22)	Loss on disposal of property, plant and equipment	(22)	(37)
—	(1)	Loss on disposal of intangible assets	(1)	—
2 120	228	Fair value adjustments on investment property	228	2 120
(572)	(1 206)	Impairment of non-financial assets	(1 206)	(572)
(992)	(3 133)	**Headline earnings**	(3 153)	(999)

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36. Financial risk management

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

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

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

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

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

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

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

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

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

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

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

36. Financial risk management continued

For the purposes of calculating expected credit losses under IFRS 9, these credit risk bands are combined as follows:
A+B Low risk.
C Medium risk.
D+E High risk.

In addition to the above, each Operating division is treated as a separate debtors' portfolio, in order to better reflect the unique economic exposure and customer behaviour of each division. The Operating divisions are:
- Transnet Freight Rail;
- Transnet Engineering;
- Transnet National Ports Authority;
- Transnet Port Terminals;
- Transnet Pipelines; and
- Transnet Property.

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

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

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

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

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

The counterparty risk policy of the Group is fully aligned with the requirements of the Treasury Regulations as referred to in the PFMA:
- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Establishment of investment limits per investment instrument;
- Monitoring of investments against limits;
- Reassessment of investment policies on a regular basis;
- Reassessment of counterparty credit risk based on credit ratings; and
- Assessment of investment instruments based on liquidity requirements.

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

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36. Financial risk management continued

Market risk

Foreign currency risk

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

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

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

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

Commodity risk

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

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

Interest rate risk

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

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

Other price risk

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

Liquidity risk

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

The DMTN programme size is R80,0 billion, of which an amount of R36,9 billion is still available. The global medium-term note (GMTN) programme size is USD6,0 billion, of which an amount of USD5 billion is available. The TNUS28 was issued from the GMTN programme during the 2023 financial year.

Various liquidity measures are in place to ensure that Transnet will be able to honour its commitments. Transnet only invests surplus cash that ensures capital preservation. Capital market investments are only allowed if there is a requirement to ringfence cash for longer periods on a specific project, or as a result of a condition stipulated by a regulator. These will be held to maturity.

36. Financial risk management continued

Bonds at carrying and nominal values

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

The following bonds were in issue at 31 March 2023 for the Company and the Group:

	Bond	Redemption date	Coupon rate %	2023 Carrying value R million	2023 Nominal value R million	2022 Carrying value R million	2022 Nominal value R million
Domestic Rand bonds							
	TN23	6 Nov 23	10,80	6 960	6 929	7 006	6 929
	TNF25U	14 Feb 25	9,75	2 500	2 500	2 500	2 500
	TNF25	14 Feb 25	9,90	550	550	550	550
	TN25	19 Aug 25	9,50	9 934	9 929	9 937	9 929
	TNF26U	13 Aug 26	10,15	1 930	1 930	1 930	1 930
	TNF27	7 Feb 27	10,30	316	316	316	316
	TN27	14 Nov 27	8,90	8 226	8 565	8 172	8 565
	TN29	7 Feb 29	10,26	200	200	200	200
	TN30	9 Oct 30	10,50	4 583	4 622	4 580	4 622
	TNI33	28 Feb 33	5,23	285	308	285	286
	TN34	7 Feb 34	11,35	108	108	108	108
	TN40	9 Oct 40	10,75	4 874	5 070	4 871	5 070
Total domestic Rand bonds				40 466	41 027	40 455	41 005
Foreign Rand bonds	Euro 2028[1]	18 Apr 28	13,50	1 975	2 000	1 972	2 000
	Euro 2029[1]	30 Mar 29	10,00	1 212	1 500	1 183	1 500
Total foreign Rand bonds				3 187	3 500	3 155	3 500
USD bonds	TNUS22	26 Jul 22	4,00	—	—	14 628	14 636
	TNUS28	6 Feb 28	8,25	17 734	17 734	—	—
Total foreign currency bonds				17 734	17 734	14 628	14 636
Total bonds in issue at year-end				61 387	62 261	58 238	59 141

[1] *These bonds are guaranteed by the Government of the Republic of South Africa, and the Company paid R1,2 million in guarantee fees (2022: R1,2 million). The amounts in the above table are all in respect of bonds held at amortised cost.*

Notes to the annual financial statements

for the year ended 31 March 2023

36. Financial risk management continued

Concentration of liquidity risk
The sources of funding are tabled below. Altogether 48% of the borrowings are widely held (2022: 46%):

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
4 481	1 754	ABSA Bank Ltd	1 754	4 481
2 722	2 528	African Development Bank	2 528	2 722
2 500	2 214	Bank of China	2 214	2 500
11 728	12 488	China Development Bank	12 488	11 728
—	11 863	Deutsche Bank	11 863	—
6 000	8 500	Development Bank of South Africa	8 500	6 000
3 146	2 622	Export Development Canada	2 622	3 146
1 160	1 031	FutureGrowth Asset Management (Pty) Ltd	1 031	1 160
432	290	French Development Bank	290	432
3 305	2 850	GFB 2015 (RF) Proprietary Limited (US Exim)	2 850	3 305
1 200	400	Industrial and Commercial Bank of China	400	1 200
1 000	520	Industrial Development Corporation	520	1 000
1 049	874	Investec Bank Ltd	874	1 049
6 650	3 535	JP Morgan Chase Bank	3 535	6 650
2 103	1 840	KfW Development Bank	1 840	2 103
1 600	1 600	KFWIPEX_Bank GmbH	1 600	1 600
1 021	684	Libfin	684	1 021
5 694	2 285	Nedbank Ltd	2 285	5 694
1 135	967	Old Mutual Life Assurance Company (SA) Ltd	967	1 135
821	699	Old Mutual Specialised Finance (Pty) Ltd	699	821
4 528	1 000	RMB – Division of FirstRand Bank Ltd	1 000	4 528
95	85	Sanlam Investment Management (Pty) Ltd	85	95
2 500	2 300	Standard Bank Corporate Investment Bank	2 300	2 500
2 029	2 029	The New Development Bank	2 029	2 029
59 861	62 787	Various holders of Transnet bonds and commercial paper, widely held, and traded[2]	62 787	59 861
2 078	2 322	Other[3]	2 322	2 078
128 838	130 067	Total borrowings[1]	130 067	128 838

[1] *Borrowings include loans of R15 391 million (2022: R15 216 million) in respect of the acquisition of locomotives, which are secured by a pledge of the associated locomotives with a carrying value of R23 678 million (2022: of R28 727 million) – refer note 9.*

Further, borrowings include loans amounting to R22 887 million (2022: R22 786 million) in respect of locomotives acquired under the 1 064 locomotive supply agreements, of which R15 337 million (2022: R15 033 million) is secured by a pledge of locomotives already delivered by the OEMs under the programme. The table below provides a breakdown of the 1 064 locomotive supply agreements.

	CRRC E-loco	*CRRC SA*	*BT**	*WABTEC South Africa Technologies (Pty) Ltd*
Locomotives contracted	*359*	*232*	*240*	*233*
Delivered to date	*260*	*22*	*91*	*233*
Outstanding deliveries	*99*	*210*	*149*	*—*

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

Transnet has filed an application with the Gauteng High Court to have all four 1 064 locomotive supply agreements reviewed and set aside, with just and equitable relief. The locomotive supply agreements with CRRC E-loco and CRRC SA are currently suspended pending the outcome of the court application, while the contract with BT is not suspended. Should the agreements be set aside by the courts, unsecured loans amounting to R5 336 million (2022: R5 249 million) would become payable, and would be subject to negotiations between Transnet and the banks.

[2] *Includes bonds held at amortised cost of R61 387 million and commercial paper of R1 400 million. (2022: includes bonds held at amortised cost of R58 238 million, commercial paper of R1 623 million and repo liabilities of R0,05 million).*

[3] *Includes lease liabilities of R2 322 million (2022: R2 078 million).*

36. Financial risk management continued

Funding plan
Over the next five years Transnet intends to raise R88,4 billion (R93,4 billion after including a liquidity buffer) from the market.

	Budget 2023/24 R million	Projections 2024/25 R million	2025/26 R million	2026/27 R million	2027/28 R million	Five-year plan R million
Net cash flows from operations	24 457	23 366	28 024	35 369	40 827	152 043
Capital investment	(19 197)	(24 041)	(29 024)	(27 778)	(22 668)	(122 708)
Loan redemptions	(15 327)	(16 638)	(24 645)	(19 522)	(41 554)	(117 686)
Funding requirement	(10 067)	(17 313)	(25 645)	(11 931)	(23 395)	(88 351)
New debt capital redemptions	(5 000)	—	—	—	—	(5 000)
Funding mandate	(15 067)	(17 313)	(25 645)	(11 931)	(23 395)	(93 351)

Contractual maturity analysis
The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements, as at 31 March 2023 for the Company and the Group:

	Carrying value 2023 R million	Contractual cash flows 2023 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds (Company and Group)	(61 387)	(70 961)	(11 370)	(7 030)	(12 979)	(4 728)	(11 909)	(22 945)
Secured bank loans (Company and Group)	(15 391)	(19 735)	(3 458)	(3 107)	(2 892)	(2 735)	(2 589)	(4 954)
Unsecured bank loans (Company and Group)	(46 032)	(53 373)	(8 957)	(7 048)	(6 484)	(6 323)	(5 216)	(19 345)
Commercial paper (Company and Group)	(1 400)	(1 520)	(1 520)	—	—	—	—	—
Other borrowings (Company and Group)	(5 857)	(7 492)	(1 473)	(2 388)	(840)	(761)	(704)	(1 326)
Total borrowings (Company and Group)	(130 067)	(153 081)	(26 778)	(19 573)	(23 195)	(14 547)	(20 418)	(48 570)
Trade payables, accruals and contract liabilities (Company and Group)[1]	(24 877)	(24 877)	(24 877)	—	—	—	—	—
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(567)	(634)	(202)	(195)	(156)	(97)	(33)	49
Forward exchange contracts used for hedging	(16)	(16)	(16)	—	—	—	—	—
Outflow	(400)	(403)	(403)	—	—	—	—	—
Inflow	384	387	387	—	—	—	—	—
Other forward exchange contracts	—	—	—	—	—	—	—	—
Outflow	(2)	(2)	(2)	—	—	—	—	—
Inflow	2	2	2	—	—	—	—	—
Total derivative financial liabilities	(583)	(650)	(218)	(195)	(156)	(97)	(33)	49

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

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36. Financial risk management continued

Contractual maturity analysis continued

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements, as at 31 March 2022, for the Company and the Group:

	Carrying value 2022 R million	Contractual cash flows 2022 R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non-derivative financial liabilities								
Bonds (Company and Group)	(58 238)	(88 693)	(19 312)	(11 180)	(6 920)	(12 894)	(4 645)	(33 742)
Secured bank loans (Company and Group)	(15 216)	(19 378)	(2 862)	(2 799)	(2 596)	(2 438)	(2 307)	(6 376)
Unsecured bank loans (Company and Group)	(37 006)	(56 478)	(9 637)	(6 743)	(6 605)	(6 221)	(6 068)	(21 204)
Commercial paper (Company and Group)	(1 623)	(1 713)	(1 713)	—	—	—	—	—
Other borrowings (Company and Group)	(16 755)	(18 856)	(12 197)	(2 329)	(840)	(788)	(732)	(1 970)
Total borrowings (Company and Group)	(128 838)	(185 118)	(45 721)	(23 051)	(16 961)	(22 341)	(13 752)	(63 292)
Trade payables, accruals and contract liabilities (Company)[1]	(20 564)	(20 564)	(20 564)	—	—	—	—	—
Trade payables, accruals and contract liabilities (Group)[1]	(20 567)	(20 567)	(20 567)	—	—	—	—	—
Derivative financial liabilities (Company and Group)								
Interest rate swaps	(1456)	(1 626)	(599)	(468)	(262)	(161)	(93)	(43)
Forward exchange contracts used for hedging	(49)	(60)	(60)	—	—	—	—	—
Outflow	(668)	(680)	(680)	—	—	—	—	—
Inflow	619	620	620	—	—	—	—	—
Other forward exchange contracts	(2)	(2)	(2)	—	—	—	—	—
Outflow	(27)	(27)	(27)	—	—	—	—	—
Inflow	25	25	25	—	—	—	—	—
Total derivative financial liabilities	(1 507)	(1 688)	(661)	(468)	(262)	(161)	(93)	(43)

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

36. Financial risk management continued

Credit risk

Maximum exposure and analysis of exposures to credit risk

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

	2023				2022			
	Gross carrying value R million	Expected credit losses R million	Expected loss rate %	Net carrying value R million	Gross carrying value R million	Expected credit losses R million	Expected loss rate %	Net carrying value R million
Company								
Trade receivables and contract assets								
– Low risk	8 306	(2 757)	32%	5 549	6 994	(2 053)	29	4 941
– Medium risk	1 369	(79)	6%	1 290	2 095	(1 035)	49	1 060
– High risk	1 496	(1 025)	69%	471	2 188	(1 446)	66	742
	11 171	(3 861)	33%	7 310	11 277	(4 534)	40	6 743
Other amounts receivable[1]	2 155	(555)	26%	1 600	1 626	(546)	34	1 080
Investments – current	57	—	—	57	61	—	—	61
Investment and price risk	12 697	—	—	12 697	4 406	—	—	4 406
Group								
Trade receivables and contract assets								
– Low risk	8 306	(2 757)	32%	5 549	6 994	(2 053)	29	4 941
– Medium risk	1 369	(79)	6%	1 290	2 095	(1 035)	49	1 060
– High risk	1 496	(1 025)	69%	471	2 188	(1 446)	66	742
	11 171	(3 861)	33%	7 310	11 277	(4 534)	40	6 743
Other amounts receivable[1]	2 179	(555)	25%	1 624	1 640	(546)	33	1 094
Investments – current	57	—	—	57	61	—	—	61
Investment and price risk	12 697	—	—	12 697	4 406	—	—	4 406

[1] **Reconciliation to note 18**

Prepayments and other amounts receivable	**Company**	**Group**
Other amounts receivable	*R1 600 million (2022: R1 080 million)*	*R1 624 million (2022: R1 094 million)*
Prepayments	*R628 million (2022: R630 million)*	*R628 million (2022: R630 million)*
	R2 228 million (2022: R1 710 million)	*R2 252 million (2022: R1 724 million)*

Low risk: No guarantee is required from the customer.

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

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

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

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

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

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

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

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36. Financial risk management continued

Guarantees and deposits to the value of R2,7 billion were held as collateral in respect of trade and other receivables (2022: R2,1 billion).

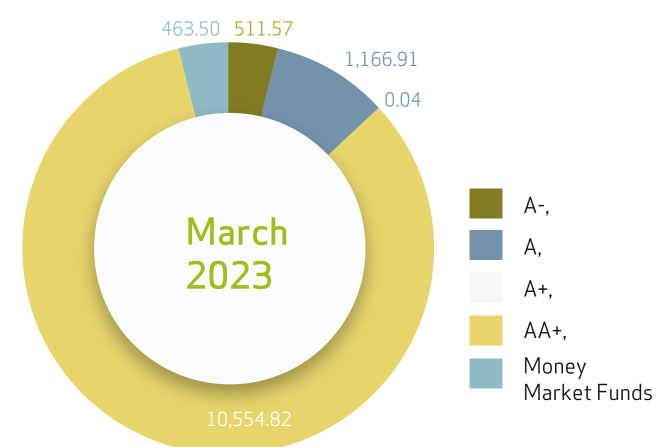
Trade receivables to the value of R195,4 million (2022: R23,1 million) were written off in the current year and remain subject to enforcement activity by the Group.

Concentration of credit risk

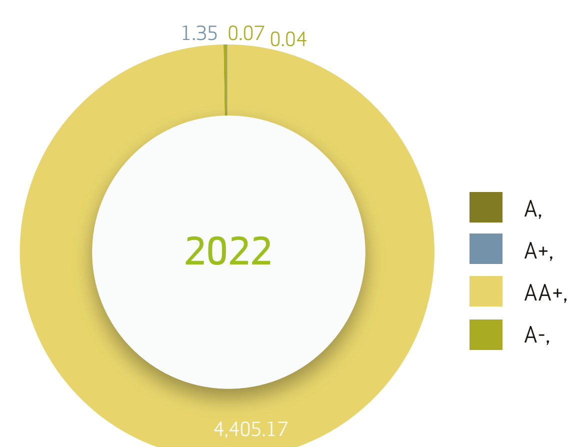
The Group determines concentration of credit risk from trade receivables based on the size of individual customer balances and by industry sector. The Company's and Group's 12 most significant customers comprise 31% of the trade receivables at 31 March 2023 (2022: 34%).

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

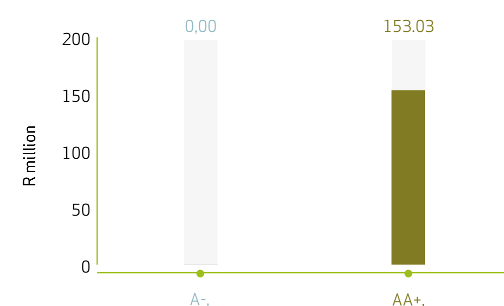
Transnet risk per long-term rating – 2023 (R million)



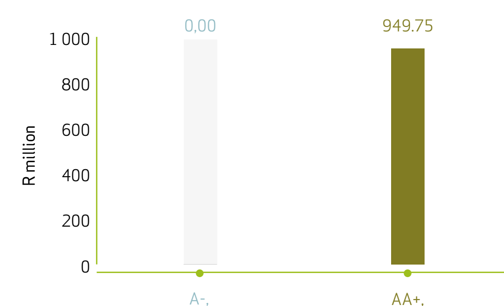
Transnet risk per long-term rating - 2022 (R million)



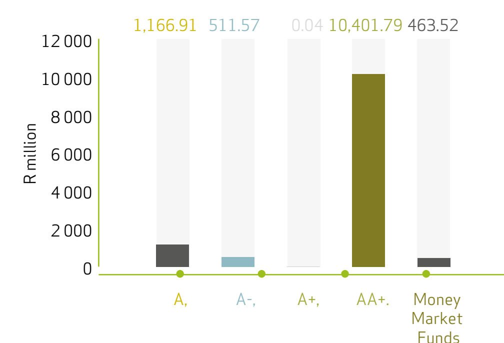
Transnet risk (derivatives) per long-term rating – 2023



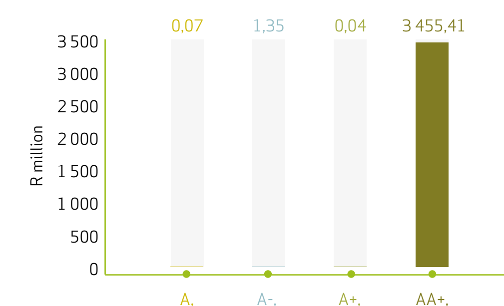
Transnet risk (derivatives) per long-term rating – 2022



Transnet risk (investments) per long-term rating – 2023



Transnet risk (investments) per long-term rating – 2022



36. Financial risk management continued

Market risk

Foreign currency risk

The Company's and Group's net long/(short) foreign currency risk exposures as at 31 March 2023 are reflected below (expressed in notional amounts):

	2023			2022		
	USD US$/m	JPY ¥/m	EUR €/m	USD US$/m	JPY ¥/m	EUR €/m
Foreign currency bonds	(1 000)	—	—	(1 000)	—	—
Secured bank loans	(1 397)	—	—	(811)	—	—
Brazil equity investment	2	—	—	2	—	—
Gross financial position exposure	(2 395)	—	—	(1 809)	—	—
Exposures for future expenditure	(21)	—	—	(41)	(3)	—
Gross foreign currency exposure	(2 416)	—	—	(1 850)	(3)	—
Forward exchange contracts	20	—	—	41	3	—
Cross-currency swaps	2 397	—	—	1 811	—	—
Net uncovered exposure	1	—	—	2	—	—

Sensitivity analysis

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

	2023				2022			
Currency	Currency exposure in millions of currency	Fair value R million	Impact of Rand strength-ening R million	Impact of Rand weakening R million	Currency exposure in millions of currency	Fair value R million	Impact of Rand strength-ening R million	Impact of Rand weakening R million
AUD	0,1	(0,001)	0,001	(0,001)	—	—	—	—
EUR	1	(0,02)	0,03	(0,03)	1	(2,0)	1,4	(1,4)
GBP	0,01	(0,0003)	0,0003	(0,0003)	—	—	—	—
USD	(4)	0,01	(0,1)	0,1	0,4	(0,1)	0,2	(0,2)
Totals		(0,01)	(0,1)	0,1		(2,1)	1,6	(1,6)

Hedge accounting is applied to 99% of currency hedges where structures are designated either as fair value hedges or cash flow hedges as detailed in note 14. The sensitivity analysis above includes the impact of fair value movements on derivatives that are part of effective hedge accounting, hence the analysis is on the net balance, after the offsetting effect of the hedged item and hedging instruments. The sensitivity analysis was calculated using a 95% confidence interval over a 2-working day horizon, and assumes all other variables remain unchanged. Basis swap adjustments have been added to the curves when doing the sensitivities to ensure that a more accurate market value is reflected, taking into account market liquidity.

Value at risk (fx)

The value at risk (VaR) for direct committed capital and operational exposures and the Brazilian equity investment is R2 million (2022: R3 million). VaR calculates the maximum pre-taxation loss expected (or worst-case scenario) on a position held, over a 90-working day horizon given a 95% confidence level, and is used on a limited basis at Transnet. The VaR methodology is a statistically defined, probability-based approach that takes into account, inter alia, market volatilities relative to a position held. The Group uses historical simulation and the model assumes that historical patterns will repeat into the future and does not take extreme market conditions into account.

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36. Financial risk management continued

Foreign exchange rates

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

	2023	2022
US Dollar	17.7339	14.6360
Japanese Yen	0.1336	0.1204
British Pound	21.8978	19.2294
Euro	19.2758	16.2196

Interest rate risk

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

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
(94 795)	(76 502)	Fixed-rate liabilities	(76 502)	(94 795)
(34 043)	(53 565)	Floating-rate liabilities	(53 565)	(34 043)
(128 838)	(130 067)	**Total**[1]	(130 067)	(128 838)

[1] *These values include the repo liability of R0 million (2022: R0,05 million), which have a maturity term of one week.*

The exposure to floating interest rates on foreign financial liabilities is R24 350 million (2022: R11 728 million) for the Company and Group. No floating rate foreign liabilities were swapped to fixed rates. The Board approved a targeted range of fixed interest rates that may be managed to enable management to utilise interest rate yields.

Sensitivity analysis

The sensitivity analysis below reflects the interest rate impact on the finance cost budget for the 2023 financial year in respect of existing liabilities and new funding requirements for Company and Group.

Impact	2023 Shift +100bp R million	2023 Shift -200bp R million	2023 Shift +250bp R million	2023 Shift -500bp R million	2023 Shift +500bp R million	2022 Shift +100bp R million	2022 Shift -200bp R million	2022 Shift +250bp R million	2022 Shift -500bp R million	2022 Shift +500bp R million
Finance cost impact (increase)/decrease	(486)	971	(1 214)	2 428	(2 429)	(463)	928	(1 158)	2 318	(2 317)

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

Transnet is exposed to Interest Rate Benchmark Reform with respect to LIBOR on loans received from China Development Bank which had a carrying amount of R12 488 million at 31 March 2023 (2022: R11 728 million), and the corresponding hedges – refer note 14. Transnet is in contact with the counterparties, however at this stage no alternative benchmark rate has been suggested.

Transnet expects the impact of the benchmark reform to be limited to changes in the cash flows under the loans and corresponding hedges, valuation of derivatives, application of hedge accounting and the impact on the accounting systems. Transnet has set-up a transition project with the assistance of external experts to address the potential issues that may arise from the reform. This process is expected to be concluded before the transition takes effect. All new transactions entered into going forward will be based on the new benchmark rates applicable to the currency.

Price risk

The Group has an exposure to equity price risk on the Brazilian Stock Exchange. At year-end, the quoted value of the Group's investment in Brazil was R48 million (2022: R41 million). Management believes that the foreign exchange exposure on this investment is significantly greater than that of equity price risk and as such, the sensitivity for this investment has been included in the foreign currency risk net position and VaR calculations..

Commodity price risk (fuel)

The table below shows the cash flows at risk scenarios against the approved fuel budget for the 2024 financial year at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2023 (excluding energy levies for Company and Group). Amounts are in R million.

31 March 2023	$/R9,07	$/R14,07	$/R17,73	$/R21,39	$/R26,39
BRT @ $48	1,374	1,033	783	533	192
BRT @ $58	1,246	835	533	232	(180)
BRT @ $80	973	411	—	(411)	(973)
BRT @ $101	701	(12)	(533)	(1,055)	(1,767)
BRT @ $111	573	(210)	(783)	(1,356)	(2,139)

36. Financial risk management continued

The table below shows the cash flow at risk scenarios against the approved fuel budget for the 2023 financial year at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2022 (excluding energy levies) for Company and Group. Amounts are in R million:

31 March 2022	$/R8,20	$/R13,20	$/R15,34	$/R17,48	$/R22,48
BRT @ $48	1 158	850	718	587	279
BRT @ $69	929	482	—	100	(347)
BRT @ $91	701	114	(136)	(387)	(974)
BRT @ $110	498	(213)	(516)	(820)	(1 530)
BRT @ $120	392	(383)	(714)	(1 045)	(1 820)

Classification, fair values and analysis of financial instruments

Categories of financial instruments:

Company 2022 R million	Company 2023 R million		Group 2023 R million	Group 2022 R million
		Financial assets at amortised cost		
11 992	23 135	– Trade receivables and contract assets (including bank and cash)*	23 159	12 464
		Fair value through profit or loss		
7 281	3 418	– Derivatives held for risk management	3 418	7 281
220	128	– Other financial assets	128	220
		Fair value through other comprehensive income		
41	48	– Equity investment (Rumo)	48	41
		Financial liabilities at amortised cost		
149 402	154 944	– Liabilities measured at amortised cost (including trade payables, accruals and contract liabilities)**	154 944	149 405
		Fair value through profit or loss		
1 507	583	– Derivatives held-for-hedging	583	1 507

* *Includes restricted cash held by the TPL Rehabilitation Trust in the prior year.*
** *Trade payables, accruals and contract liabilities, excluding post-retirement employee benefit and tax related accruals.*

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

Company 2022 Fair value R million	Company 2022 Carrying value R million	Company 2023 Fair value R million	Company 2023 Carrying value R million		Group 2023 Fair value R million	Group 2023 Carrying value R million	Group 2022 Fair value R million	Group 2022 Carrying value R million
134 085	126 760	120 258	127 745	Borrowings	120 258	127 745	134 085	126 760
1 848	2 078	1 970	2 322	Lease liabilities	1 970	2 322	1 848	2 078

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36. Financial risk management continued

Fair values of financial instruments

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

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

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
2023				
Financial assets at FVTPL*				
Derivative financial assets (Company and Group)	—	3 418	—	3 418
Other financial assets (Company and Group)***	—	—	128	128
Financial assets at FVTOCI**				
Equity investment (Rumo) (Company and Group)	48	—	—	48
Financial liabilities at FVTPL*				
Derivative financial liabilities (Company and Group)	—	583	—	583
2022				
Financial assets at FVTPL*				
Derivative financial assets (Company and Group)	—	7 281	—	7 281
Other financial assets (Company and Group)***	—	—	220	220
Financial assets at FVTOCI**				
Equity investment (Rumo) (Company and Group)	41	—	—	41
Financial liabilities at FVTPL*				
Derivative financial liabilities (Company and Group)	—	1 507	—	1 507

* *FVTPL – Fair value through profit and loss.*

** *FVTOCI – Fair value through other comprehensive income.*

	2023	2022
*** *Opening balance (R million)*	220	*195*
Fair value adjustment (R million)	(92)	*25*
Closing balance (R million)	128	*220*

Measurement of fair values

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

Financial instruments measured at fair value	Valuation technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and fair value measurement
Cross-currency and interest rate swaps and forward exchange contracts used for hedging[1]	Discounted cash flow method using market yield curves to project and discount cash flows. The Monte Carlo simulation model is used, incorporating market inputs that were observable, probabilities of default, recovery rates and expected future exposures per counterparty.	Not applicable	Not applicable
Issued bonds	Bonds were priced at fair values using quoted market prices.	Not applicable	Not applicable
Other financial assets[2]	Net asset value.	Not applicable	Not applicable
Other financial liabilities[3]	Loans were valued using risk-free yield curves adjusted for credit risk of counterparties.	Not applicable	Not applicable

[1] *Fair values include market observable credit valuation adjustments (CVAs) and debit value adjustments (DVAs).*
[2] *Guardrisk insurance cell.*
[3] *Other financial liabilities include borrowings and finance lease obligations.*

Transfers between levels 1 and 2

There were no transfers in either direction between levels 1 and 2 in both the current and prior reporting period.

36. Financial risk management continued

Level 3 fair values

There were no transfers into or out of level 3 in both the current and prior reporting period.

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

	Company Net gain/(loss) R million	Group Net gain/(loss) R million
2023		
Liabilities measured at amortised cost[1] (refer note 6)	(13 285)	(13 285)
Financial assets at amortised cost (refer note 7)	186	186
Financial assets and liabilities held at fair value through profit or loss[2] (refer note 5)	621	621
Equity and debt investments held at fair value through other comprehensive income	7	7
2022		
Liabilities measured at amortised cost[1] (refer note 6)	(11 617)	(11 617)
Financial assets at amortised cost (refer note 7)	112	126
Financial assets and liabilities held at fair value through profit or loss[2] (refer note 5)	313	313
Equity and debt investments held at fair value through other comprehensive income	3	8

[1] *The net loss on financial liabilities measured at amortised cost consists mainly of interest expense after offsetting against effective cash flow hedges.*
[2] *The net gain on Company and Group financial assets and financial liabilities held-for-trading is R713 million (2022: R288 million).*

Transnet's credit rating

Transnet has two officially recognised rating agencies: Moody's and S&P. Transnet's credit rating is depicted in the table below:

Rating category	Moody's	S&P
Foreign currency rating	Ba3/Stable outlook	BB-/Negative outlook
Local currency rating	Ba3/Stable outlook	BB-/Negative outlook
National scale rating (NSR)- long and short term	A2.za/P-1.za	za.AA-/za.A-1+
Standalone credit rating (BCA/SACP)	b2/Stable outlook	b+/ Negative outlook

On 6 February 2023 Moody's revised the outlook on Transnet's ratings to stable from negative. The Corporate Family Ratings (long-term local and foreign currency) of Ba3, the National Scale Rating (NSR) senior unsecured MTN programme of A2.za, NSR short-term rating of P-1.za and the Baseline Credit Assessment (BCA) of b2 were all affirmed at current levels.

This change in the ratings outlook was informed by the successful issuance of USD1 billion in the highly liquid international markets and access thereof given the absence of Transnet as an issuer in over a decade.

On 29 November 2022 S&P affirmed Transnet's issuer ratings at BB- and the outlook remains negative. The BB- issuer ratings on its senior unsecured debt and the National Scale Rating (NSR) at zaAA/zaA-1+ were also affirmed. However, Transnet's standalone rating was revised down by one notch to b+ from bb-.

This rating action had impacted two loans with an outstanding capital balance of R6 billion. The relevant waivers for a covenant breach were successfully secured.

On 5 July 2023 S&P lowered the long-term NSR to za.AA- and affirmed the short-term rating at za.A-1+, due to the publication of S&P's revised criteria for determining national and regional scale mapping specifications and assigning credit ratings mapped from global to national scale.

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for the year ended 31 March 2023

37. Details of investments in subsidiaries and associates

Subsidiaries[1]	Effective holding 2023 %	Effective holding 2022 %	Voting power held 2023 %	Shares at cost 2023 R million	Shares at cost 2022 R million	Interest of holding company net profit/(loss) 2023 R million	Interest of holding company net profit/(loss) 2022 R million	Interest of holding company indebtedness 2023 R million	Interest of holding company indebtedness 2022 R million	Accumulated impairment and losses 2023 R million	Accumulated impairment and losses 2022 R million
Environmental responsibility											
Transnet Pipelines Rehabilitation Trust[2]	—	100	—	—	—	—*	72*	—	—	—	—
International business activities											
Transnet International Holdings SOC Ltd (TIH)[3]	100	100	100	—	—	—	—	—	—	—	—

* Includes contributions from Transnet Pipelines of nil (2022: R64 million).

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

2 Disolved during the reporting year.

3 Dormant.

Equity-accounted investees[1]	Principal activity	Effective holding 2023 %	Effective holding 2022 %	Shares at cost 2023 R million	Shares at cost 2022 R million	Interest of holding company indebtedness 2023 R million	Interest of holding company indebtedness 2022 R million	Accumulated impairment and losses 2023 R million	Accumulated impairment and losses 2022 R million	Share of post-acquisition reserves 2023 R million	Share of post-acquisition reserves 2022 R million	Total 2023 R million	Total 2022 R million
Associates													
Commercial Cold Storage (Ports) (Pty) Ltd	Storage and bondage	30	30	—	—	1	1	—	—	4	31	5	32
Comazar (Pty) Ltd[2]	Transport logistics	32	32	13	13	8	8	21	21	—	—	—	—
RainProp (Pty) Ltd	Property development and management	20	20	—	—	1	1	—	—	39	35	40	36
Joint ventures													
Gaborone Container Terminal[3]	Container terminal	36	36	6	6	—	—	—	—	22	19	28	25
Cytobix (Pty) Ltd (Godisa supplier development fund)	Supplier development	50	50	—	—	55	55	55	55	—	—	—	—
				19	19	65	65	76	76	65	85	73	93

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

2 Dormant.

3 Incorporated in Botswana.

Summarised financial information of significant equity-accounted investees

	Commercial Cold Storage (Ports) (Pty) Ltd R million	Gaborone Container Terminal R million	RainProp (Pty) Ltd R million
Financial position			
Total assets	104	65	990
Total liabilities	91	4	413
Results of operations			
Revenue	61	14	258
Net profit	8	(6)	34

Notes to the annual financial statements

for the year ended 31 March 2023

38. Group executive committee and director emoluments

The table below depicts the guaranteed pay of the Transnet Exco for the reporting year:

Guaranteed pay of Transnet Group Executive team

Member	Salary R 000	Retirement benefit fund contribution R 000	UIF contribution R 000	Other payments R 000	Total 2023 R 000	Total 2022 R 000
PPJ Derby[1]	7 784	714	2	—	8 500	8 500
M Phillips	3 919	279	2	—	4 200	4 200
K Ngema[2, 3]	—	—	—	—	—	4 956
P Munyai	4 174	324	2	—	4 500	4 127
BL Kgomo[6]	—	—	—	—	—	1 314
V Nemukula	4 120	378	2	—	4 500	3 900
N Dlamini[1]	5 798	—	2	—	5 800	5 800
A Shaw	4 670	428	2	—	5 100	5 100
S Coetzee	5 398	—	2	—	5 400	5 400
B Kani	3 803	295	2	—	4 100	4 100
S Mzimela	6 098	—	2	—	6 100	6 100
R Mills	4 646	452	2	—	5 100	4 320
V Dube[2]	—	—	—	—	—	7 498
M Silinga	5 375	523	2	—	5 900	5 900
K Phahlamohlaka	4 267	331	2	—	4 600	4 600
X Ntshingila[3]	—	—	—	—	—	2 315
T Siyaya[2, 3]	—	—	—	—	—	3 020
IK Matsheka[4]	4 731	367	2	—	5 100	2 399
S Khan[4]	3 937	361	2	—	4 300	358
DJ Mdaki[3, 4]	4 646	452	2	—	5 100	2 221
HS Chetty[5]	4 066	432	2	—	4 500	—
A Pillay[5]	3 911	304	2	—	4 217	—
Total	81 343	5 640	34	—	87 017	86 128

[1] Group executives who are members of the Board of directors.
[2] Includes voluntary severance package benefit.
[3] Acted as an Exco member in the prior financial year.
[4] Appointed as an Exco member during the prior financial year.
[5] Appointed as an Exco member during the financial year.
[6] Mr BL Kgomo passed away in July 2021.

38. Group executive committee and director emoluments continued

The table below reflects the short- and long-term incentive payments for the Transnet Exco for the reporting year:

Member	Long-term incentive* 2023 R 000	Long-term incentive* 2022 R 000	Short-term incentive* 2023 R 000	Short-term incentive* 2022 R 000
PPJ Derby[1]	—	—	—	—
M Phillips	—	—	—	—
K Ngema[2, 3]	—	—	—	—
P Munyai	—	—	—	—
BL Kgomo[6]	—	—	—	—
V Nemukula	—	—	—	—
N Dlamini[1]	—	—	—	—
A Shaw	—	—	—	—
S Coetzee	—	—	—	—
B Kani	—	—	—	—
S Mzimela	—	—	—	—
R Mills	—	—	—	—
V Dube[2]	—	—	—	—
M Silinga	—	—	—	—
K Phahlamohlaka	—	—	—	—
X Ntshingila[3]	—	—	—	—
T Siyaya[2, 3]	—	—	—	—
IK Matsheka[4]	—	—	—	—
S Khan[4]	—	—	—	—
DJ Mdaki[3, 4]	—	—	—	—
HS Chetty[5]	—	—	—	—
A Pillay[5]	—	—	—	—
Total	—	—	—	—

** Included in trade payables and accruals (refer note 28).*
[1] Group executives who are members of the Board of directors.
[2] Includes voluntary severance package benefit.
[3] Acted as an Exco member in the prior financial year.
[4] Appointed as an Exco member during the prior financial year.
[5] Appointed as an Exco member during the financial year.
[6] Mr BL Kgomo passed away in July 2021.

The table below depicts the actual remuneration for the Transnet non-executive directors for the reporting year:

Board member	Fees R 000	Other payments R 000	Total 2023 R 000	Total 2022 R 000
P Molefe (Chairperson)	1 329	—	1 329	1 329
LL Von Zeuner*	840	—	840	917
DC Matshoga	604	—	604	599
UN Fikelepi	729	—	729	699
GT Ramphaka*	475	—	475	699
FS Mufamadi	699	—	699	699
AP Ramabulana	612	—	612	599
ME Letlape	798	—	798	798
Total	6 086	—	6 086	6 339

** Resigned during the financial year.*

Notes to the annual financial statements

for the year ended 31 March 2023

39. Going concern

The consolidated financial statements are prepared on the going-concern basis. In undertaking the going concern assessment for the foreseeable future, the directors have considered and evaluated the following:

- Financial performance and projections;
- Current economic factors;
- Funding considerations;
- Solvency and liquidity considerations;
- Economic regulation risks;
- Current litigation matters;
- Contingent liabilities and post balance sheet events; and
- Counter party risk.

The key features of this assessment are summarised as follows:

Financial performance
Transnet's performance for the year ended 31 March 2023 improved in certain areas compared to the prior year (revenue +0,6% and gearing improving to 43,6%), in spite of various challenges and the current economic climate. These challenges negatively impacted performance and included flooding in KwaZulu-Natal (KZN), power cuts across the country, the industrial strike in October 2022, interest rate hikes, and rising security incidents mainly fuel theft, cable theft and vandalism of infrastructure and ultimately resulted in EBITDA reducing by 2,1% from the prior year.

Projections
The operational challenges faced by Transnet resulted in a significant deviation from the 2022/23 budget, causing a substantial loss and deviation from the planned cash flows from operations. The Shareholder however provided support to Transnet through an equity injection to fund the unforeseen flood damage suffered in the KZN region during April 2022 and fund the repairs of long-standing locomotives to return them to service (R5,8 billion in the form of an ordinary share issuance).

The 2023/24 corporate plan depicts an improvement in financial performance as operations improve over time. Financial performance is projected to stabilise in 2023/24 and accelerate in subsequent years.

Transnet will focus on improving cash generation to ensure no cash shortfalls are planned from operations after capital investment, and the planned cash surplus will be used to partially repay loans.

Funding considerations
Transnet expects continued access to debt capital markets, primarily through a combination of its Domestic and Global Medium-Term Note (DMTN and GMTN) programmes, development finance, and structured syndicated and bilateral long-term facilities to satisfy its funding requirements. The liquidity position to date has improved for the current reporting year, which has reinforced the build-up of Transnet's liquidity buffer. Looking ahead to the current cash flow forecast (including funding initiatives), Transnet envisages a further improvement in the liquidity buffer towards the end of the 2023/24 financial year while looking to reduce debt to more sustainable levels.

In the current financial year, Transnet successfully completed a USD1 billion issuance under the GMTN programme which also resulted in Moody's improving Transnet's ratings outlook from negative to stable. Transnet will continue to endeavor to raise funding on the strength of its financial position.

For the 31 March 2023 reporting year, Transnet achieved a CIC of 2,1 times. A number of loans require Transnet to maintain the CIC covenant at a minimum of 2,5 times at 31 March and 30 September of each financial year. A CIC below 2,5 times constitutes a breach of the CIC loan covenant on 11 loans with a total capital balance of R35 billion. The breach is an event of default.

On 21 April 2023, Transnet submitted waiver requests to each of the lenders requesting that they waive the triggered event of default. All the required waivers from affected lenders relating to the CIC loan covenant breach have been received with all matters appropriately closed.

Litigation, contingent liabilities and post balance sheet events
The directors evaluated all significant matters, including ongoing legal proceedings and contingent liabilities with any developments during the post-reporting period and assessed their impact on the liquidity and solvency of the Group. The Group does not expect a negative impact on its funding ability.

Conclusion
After performing the assessment and considering all associated risks, the directors believe that there are currently no material uncertainties relating to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and thus the directors believe that Transnet will be a going concern in the foreseeable future. For this reason, they continue to adopt the going concern assumption in preparing the financial statements of Transnet SOC Ltd.

40. Events after the reporting period date

Debt service reserve account
In April 2023, Transnet invested R1,1 billion in a debt service reserve account, which is a restricted foreign cash account due to an arrangement with a lender. The restrictions on this account are outlined in the agreement between the two parties.

Appointment of the new Transnet Board
In July 2023, four members of the previous Board were retired by rotation, with two members remaining. The new Board was thereafter appointed by the Shareholder Minister, consisting of the chairperson Mr A Sangqu, Ms R Buthelezi, Mr M Debel, Mr B Jiya, Ms L Letsoalo, Dr PS Molefe, Prof FS Mufamadi, Mr D Patel, Ms B Sedupane and Ms MP Zambane.

Settlement with Bombardier Transportation South Africa (Pty) Ltd
On 24 August 2023 Transnet entered into an agreement with Bombardier Transportation South Africa (Pty) Ltd (BT) to settle the dispute pertaining to the review application instituted by Transnet in respect of the 2014 locomotive supply agreement and to provide for the further delivery of the remaining locomotives under the contract.

In terms of the agreement, BT will reimburse Transnet as follows:

- Differential in baseline price of delivered locomotives – R181,6 million;
- Finance costs associated with the additional portion of advance payments – R68,4 million; and
- Variation orders associated with manufacturing and assembly facilities relocation – R218,1 million.

Transnet in turn will release withheld penalties of R92,4 million in favour of BT.

Transnet is positioned to take delivery of the undelivered locomotives over the next 3,5 years.

The financial outcome of the agreement is planned to be assessed by an independent reviewer whilst the review application shall proceed notwithstanding the settlement agreement, albeit in a non-adversarial form. Transnet and BT shall file a joint affidavit motivating for the settlement agreement to be accepted by the High Court as just and equitable relief in the circumstances.

Glossary of terms

Cash interest cover (times)

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

Debt (for gearing calculation)

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

EBITDA

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

EBITDA margin

EBITDA expressed as a percentage of revenue.

Equity

Issued capital and reserves.

Gearing

Debt (as define above) expressed as a percentage of the sum of debt and equity (as defined above).

Headline earnings

As defined in Circular 2/2015, issued by the South African Institute of Chartered Accountants, all items of a capital nature are separated from earnings (by headline earnings).

Operating profit

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

Operating profit margin

Operating profit expressed as a percentage of revenue.

Return on total average assets

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

Total assets

Non-current and current assets.

Total average assets

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

Total debt

Non-current and current liabilities.

Abbreviations and acronyms

AFLAC	American Family Life Assurance Co.
AGSA	Auditor-General of South Africa
Aids	Acquired immune deficiency syndrome
B-BBEE	Broad-Based Black Economic Empowerment
bp	Basis point
BTMU	Bank of Tokyo-Mitshibishi UFJ, Ltd (Japan)
CGT	Capital gains tax
CGU	Cash generating unit
CIC	Cash interest cover
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CPI	Consumer price index
CTCT	Cape Town Container Terminal
CVA	Credit valuation adjustment
DCF	Discounted cash flows
DCT	Durban Container Terminal
DIFR	Disabling injury frequency rate
DMTN	Domestic medium-term note
DOA	Delegation of authority
DoT	Department of Transport
DPE	Department of Public Enterprises
DVA	Debit valuation adjustments
EBITDA	Earnings before interest, tax, depreciation and amortisation
Exco	Executive committee
FRMF	Financial risk management framework
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
GDP	Gross domestic product
GFB	General freight business
GMTN	Global medium-term note
GRAP	Generally recognised accounting practice
GTK	Gross tonnage kilometer
HIV	Human immunodeficiency virus
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JIBAR	Johannesburg Interbank Average Rate
JMoA	Joint memorandum of agreement
JPY	Japanese Yen
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
NCT	Ngqura Container Terminal
Nersa	National Energy Regulator of South Africa
NMPP	New multi product pipeline
NSR	National scale rating
PAA	Public Audit Act of South Africa, No 25 of 2004
PFMA	Public Finance Management Act, No 1 of 1999
Ports Act	National Ports Act, No 12 of 2005
PPM	Procurement Procedure Manual
PPE	Property, plant and equipment
PPPFA	Preferential Procurement Policy Framework Act
Prasa	Passenger Rail Agency of South Africa
RFI	*Request for information*
RSR	*Railway Safety Regulator*
Rumo	*Rumo Logistica Operadora Multi-model S.A.*
S&P	S&P Global Ratings
SACP	Stand-alone credit profile
SAMSA	South African Maritime Safety Authority
SAPS	South African Police Service
SARS	South African Revenue Service
SATS	South African Transport Services
SD	Supplier development
SOC	State-owned company
SP	Special meeting
TEU	Twenty-foot equivalent unit
TMPS	Total measured procurement spend
TN	Transnet bond
TNZA	Transnet Rand bond
TNFU	Transnet floating rate unlisted bond
TSDBF	Transnet Second Defined Benefit Fund
TTPF	Transport Pension Fund: Transnet Sub-fund
USD	US Dollar
WACC	Weighted average cost of capital
WACD	Weighted average cost of debt
ZAR	South African Rand

Corporate information

Transnet SOC Ltd

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Executive directors

Ms PPJ Derby
(Group Chief Executive)

Ms NS Dlamini
(Group Chief Financial Officer)

Independent non-executive directors

Mr A Sangqu (Chairperson)
Ms R Buthelezi
Mr M Debel
Mr B Jiya
Ms L Letsoalo
Dr PS Molefe
Prof FS Mufamadi
Mr D Patel
Ms B Sedupane
Ms MP Zambane

Ms GT Ramphaka resigned in December 2022.

Mr LL Von Zeuner resigned in February 2023.

Mr AP Ramabulana, Ms UN Fikelepi, Ms ME Letlape, and Ms DC Matshoga retired by rotation in July 2023.

The new Transnet Board was appointed/(re-appointed 2 members) in July 2023.

Group Company Secretary

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0001

Notes

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