Transnet is the custodian of port and rail infrastructure in South Africa. This is the area of our core expertise and Transnet's primary business going forward. Our strategy is to provide integrated, seamless transport and logistics solutions for our customers.

It is our intention to transform Transnet from a diversified conglomerate into a focused freight transport and logistics provider.

www.transnet.co.za

Transnet's revised strategy

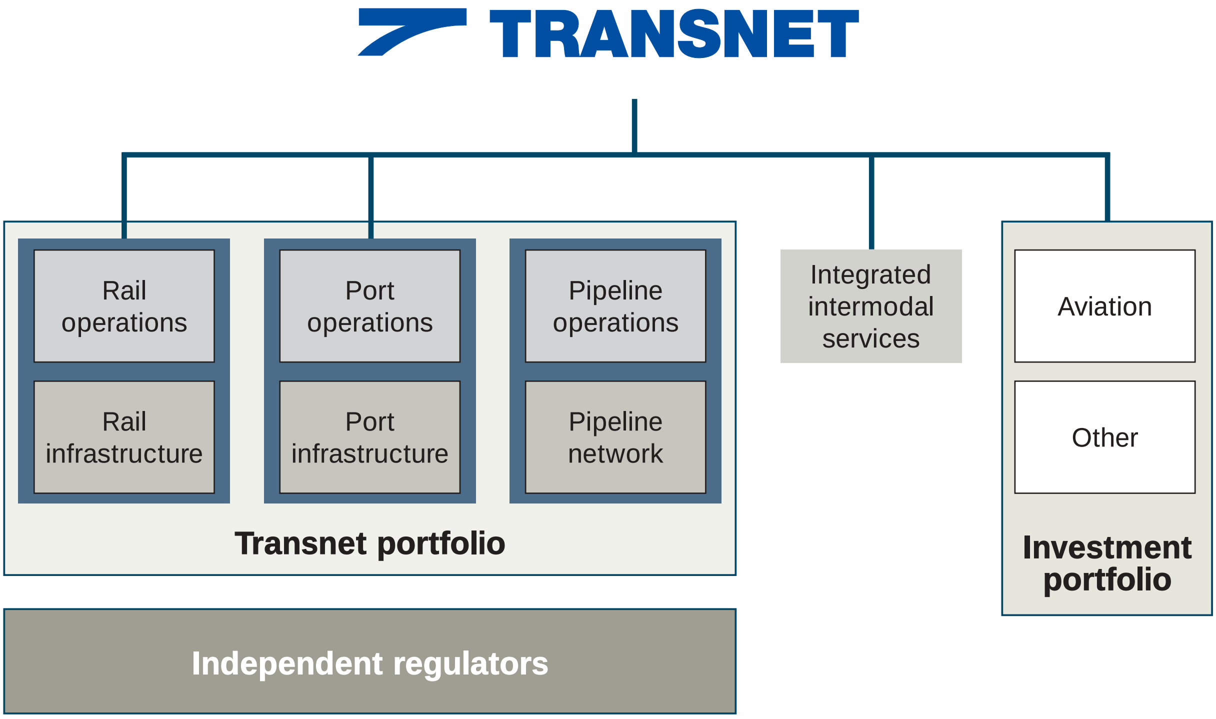
4-Point Turn-Around Plan

1. Redirecting the business
2. Restructuring the balance sheet
3. Implementing and adopting strict corporate governance principles
4. Adhering to a vigilant risk management process

- To ensure an efficient national transport and logistics system.
- Transnet is the custodian of port and rail infrastructure in South Africa. This is the area of our core expertise and Transnet's primary business focus going forward.
- To position Transnet to serve specific industries to leverage its assets and strengths.
- Partnerships for logistics solutions for customers.

Committed to transparency, integrity, efficiency and competitiveness.

The new Transnet



Transnet's revised industry positioning:

- Vertical separation between operations and custodianship of infrastructure.
- Intermodal co-ordination to ensure seamless integration between rail and ports.
- Non-core operations housed in an investment portfolio for potential future sale or disinvestment.

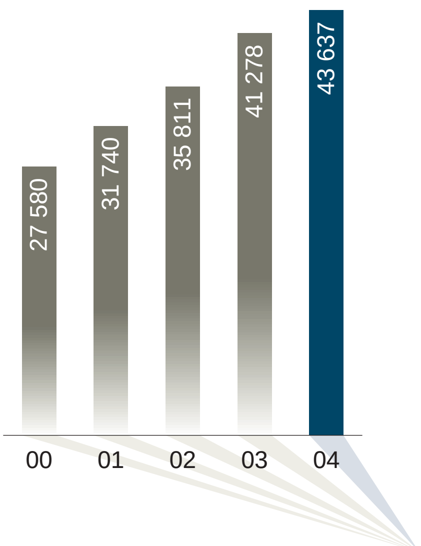
Consolidated salient features

A year of significant developments.
A great deal still remains to be achieved.

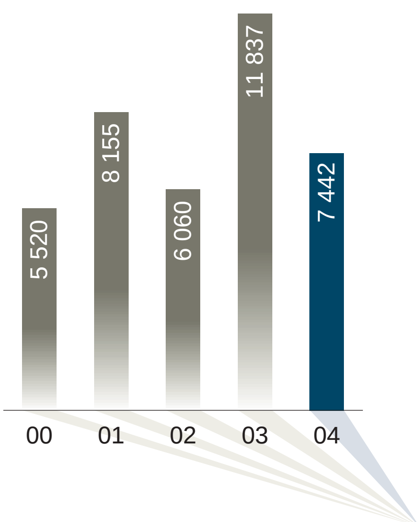
	2004 R million	2003 R million	% change
Turnover	**43 637**	41 278	5,7
EBITDA	**7 442**	11 837	(37,1)
Operating profit	**187**	5 088	(96,3)
Net loss for the year after taxation	**(6 332)**	(421)	
Number of ordinary shares outstanding (millions)	**14 710**	14 710	
Loss per share (cents)	**(43,0)**	(2,9)	
Total assets	**72 700**	68 766	5,7
Total debt	**63 759**	51 125	24,7
Capital and reserves	**8 941**	17 641	(49,3)
Cash flow from operating activities	**3 113**	3 409	(5,0)
Capital expenditure (excluding intangibles)	**7 820**	10 601	(26,2)
EBITDA margin (%)	**17,1**	28,7	
Operating profit margin (%)	**0,4**	12,3	
Net profit margin (%)	**(14,5)**	(1,0)	
Total debt to equity ratio	**7,1:1**	2,9:1	

Refer glossary of terminology on page 125.

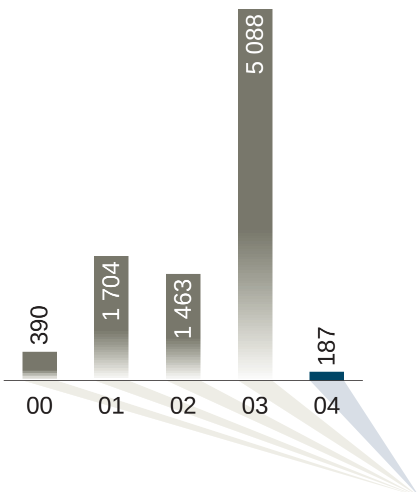
Turnover



EBITDA



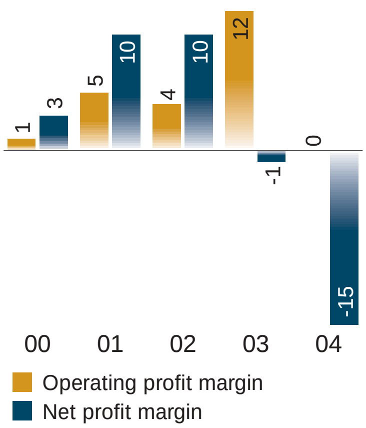
Operating profit



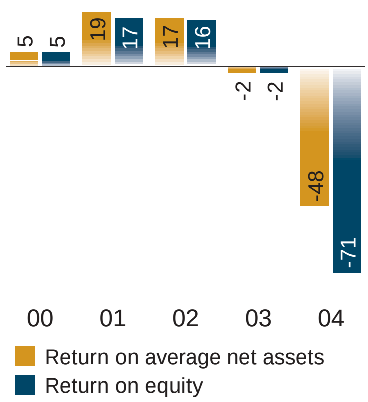
Consolidated performance indicators

	March 2004 R million	March 2003 R million	March 2002 R million	March 2001 R million	March 2000 R million
PROFITABILITY MEASURES					
Operating profit margin (%)	**0,4**	12	4	5	1
Net profit margin (%)	**(14,5)**	(1)	10	10	3
Return on average net assets (%)	**(48)**	(2)	17	19	5
Return on equity (%)	**(71)**	(2)	16	17	5
SOLVENCY RATIOS					
Gearing ratio (%)	**83**	65	52	53	62
Total debt to total capital (%)	**88**	74	71	68	71
Interest cover (times)	**(1,4)**	0,8	2,2	2,2	1,2
CASH FLOW MEASURES					
Operating cash flow to total debt (%)	**12**	17	11	12	7
EXCHANGE RATES					
– ZAR to US$ – closing rate	**6,61**	8.06	11.38	8.03	6.55
– ZAR to US$ – average	**7,15**	9.53	9.64	7.33	6.18

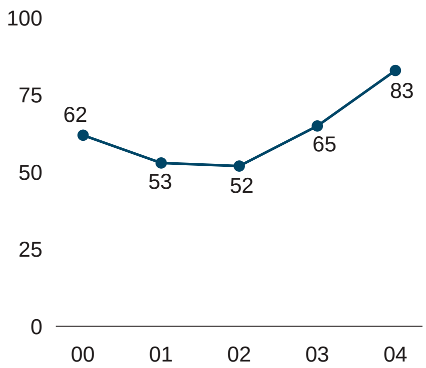
Operating margins (%)



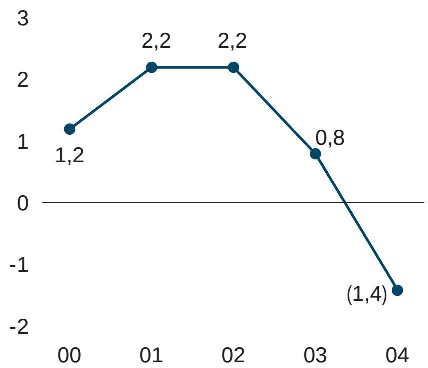
Return on equity (%)



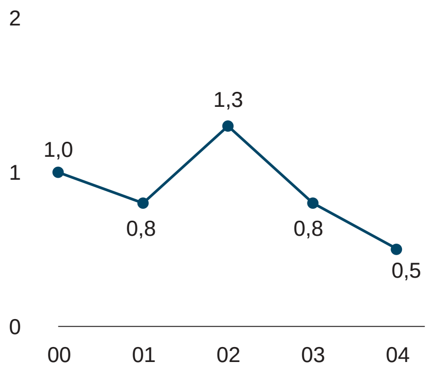
Gearing (%)



Interest cover



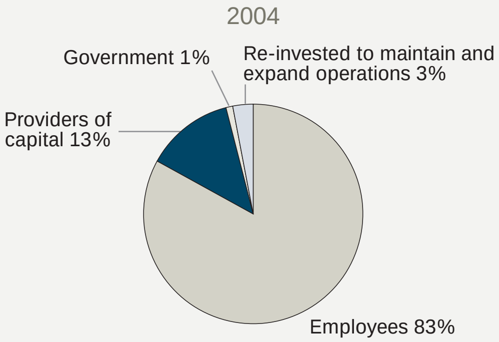
Current ratio

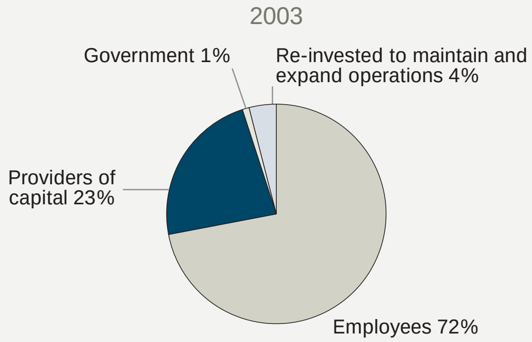


Consolidated value added statement

	2004 million	%	2003 million	%
Revenue	43 637		41 278	
Cost of materials and services	(22 153)		(21 213)	
Net operating expenses	(43 450)		(36 190)	
Excluding – Depreciation	2 536		2 209	
– Amortisation and impairment	4 285		542	
– Retirement benefit costs	1 681		347	
– Salaries, wages and other benefits	12 795		11 879	
Value added by operations	21 484	124	20 065	118
Income from investments	(4 095)	(24)	(3 076)	(18)
– Investment and other income	342		3 799	
– Income from associates	92		199	
– Fair value adjustments	(4 529)		(7 074)	
Value added/created	17 389	100	16 989	100
Applied as follows:				
Employees	14 476	83	12 226	72
– Salaries, wages and other benefits	12 795		11 879	
– Retirement benefit costs	1 681		347	
Providers of capital	2 220	13	3 942	23
– Net finance costs	2 211		2 637	
– Minority interests	9		(220)	
– Dividends	–		1 525	
Government	190	1	224	1
– South African normal taxation	190		40	
– Secondary taxation on companies	–		184	
Re-invested to maintain and expand operations	503	3	597	4
– Depreciation, amortisation and impairment	6 821		2 751	
– Deferred taxation	14		(208)	
– Net loss	(6 332)		(421)	
– Dividends	–		(1 525)	
Value apportioned	17 389	100	16 989	100

Value distribution

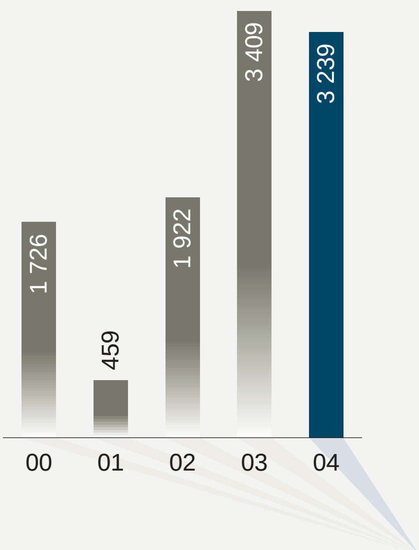




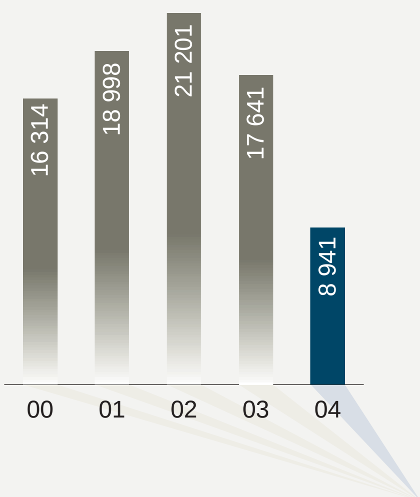
Consolidated five-year review

	March 2004 R million	March 2003 R million	March 2002 R million	March 2001 R million	March 2000 R million
INCOME STATEMENT AND CASH FLOW					
Turnover	**43 637**	41 278	35 811	31 740	27 580
Operating profit	**187**	5 088	1 463	1 704	390
Net finance costs and fair value adjustments	**6 740**	9 711	(416)	2 125	2 352
Depreciation and amortisation	**2 600**	2 258	2 113	2 204	2 166
Impairment of assets	**4 221**	493	448	173	116
(Loss)/profit before taxation	**(6 119)**	(625)	3 915	3 653	886
Taxation	**204**	16	466	260	32
(Loss)/income attributable to minority interests	**9**	(220)	12	106	75
Net (loss)/profit for the year	**(6 332)**	(421)	3 437	3 287	779
EBITDA	**7 442**	11 837	6 060	8 155	5 520
Cash flow from operating activities	**3 113**	3 409	1 922	459	1 726
BALANCE SHEET					
Equity	**8 941**	17 641	21 201	18 998	16 314
Non-current liabilities	**33 414**	32 669	29 695	19 571	27 814
Current liabilities	**30 345**	18 456	21 390	19 957	12 266
Total debt	**63 759**	51 125	51 085	39 528	40 080
Equity and liabilities	**72 700**	68 766	72 286	58 526	56 394
Non-current assets	**57 156**	54 883	43 702	42 018	43 640
Current assets	**15 544**	13 883	28 584	16 508	12 754
Total assets	**72 700**	68 766	72 286	58 526	56 394

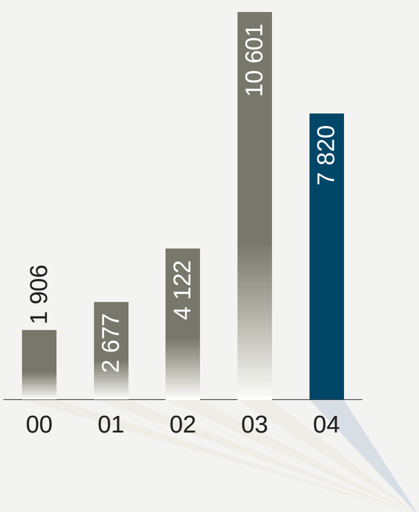
Cash flow from operating activities



Net assets employed



Capital expenditure



Group structure

Transnet Limited is a 100% state owned enterprise operating through the following material divisions, subsidiaries and associates.

Transnet Limited
Registration number: 1990/000900/06

DIVISIONS

Spoornet
Metrorail
National Ports Authority
South African Port Operations
Petronet
Freightdynamics
Propnet
Transtel
Transwerk

SUBSIDIARIES

Partially owned

- South African Airways (Pty) Ltd – 95% owned
- Marine Data Systems (Pty) Ltd – 80% owned

Wholly owned

- Autopax (Pty) Ltd
- B2B Africa Holdings (Pty) Ltd
- Protekon (Pty) Ltd
- Viamax (Pty) Ltd
- Freight Logistics International Inc
- South African Express Airways (Pty) Ltd

ASSOCIATES

- Apron Services (Pty) Ltd – 49% owned
- V & A Holdings (Pty) Ltd – 26% owned
- arivia.kom (Pty) Ltd – 32% owned

A detailed list of subsidiaries and associates appears in Annexure C on pages 120 to 122.

Board of directors

Dr BA Khumalo
Chairman

Ms M Ramos
Group Chief Executive

Ms SN Mabaso
Chief Financial Officer

Prof F Abrahams
Independent

Prof GS Andrews
Independent

Lord S Kumar Bhattacharyya
Independent

Mr SN Buthelezi
Independent

Adv N Gomomo
Independent

Ms FP Lembede
Independent

Ms AMSS Mokgabudi
Independent

Mr J Molobela
Independent

Dr Y Muthien
Independent

Ms HN Ndude
Independent

Mr M Ramano
Independent

Mr JH Rowlands
Independent

Mr PA Thompson
Independent

Chairman's statement

Bongani Aug Khumalo

As we enter into the second decade of democracy in South Africa, it is important that we pause, and reflect on the monumental changes and progress made over the past ten years. It is a time to celebrate our transition into a fully-fledged democracy, a democracy that is the envy of our peers. But even as we pause, change and progress continues – they are the only constant in our fast-moving world. As stakeholders of Transnet, we need to confront certain challenges, if we are to benefit from the opportunities presented by the dynamic global environment in which we operate.

The year has been particularly disappointing from a financial perspective. We identified certain significant impairments particularly at SAA that needed to be made. That combined with the further and extensive hedge losses incurred on the SAA hedge book and the fact that in terms of AC133: Financial Instruments, Recognition and Measurement adopted by the Group, and applied fully for the first time in the current financial year, a provision for the currency and commodity price exposures contained in our customer service contracts had to be raised.

The combination of these factors has resulted in us reporting a consolidated loss of R6,3 billion. The Board takes full responsibility for this loss and has acted through management, to immediately develop a new risk management framework aimed at ensuring that the types of exposures that have resulted in these losses are in future appropriately identified and properly mitigated.

We take these challenges head-on without flinching. The year 2004 marks a real step-change for Transnet, an era that will be marked by a sharper focus, an enhanced sense of purpose and an even greater awareness.

Economic environment

2003 was a challenging year for the domestic economy. Despite strong growth in domestic expenditure, production came under pressure as a result of lower demand for South African exports, increased import competition and a strong rand. The overall economy grew by 1,9 percent. Against the backdrop of the strong rand, and moderating food prices, CPIX inflation fell to 4 percent in December 2003.

Although there was steady growth in world trade of 3 percent, lower rand prices for domestically produced exports, coupled with turbulent global economic environment in the first half of 2003, contributed to exports falling by an estimated 2,4 percent in 2003. Our transport and infrastructural businesses felt the effects of the lower volumes, and our turnover grew by only 5,7 percent.

While the strength of the currency has been an important contributor to declining inflation and rising gross domestic expenditure, it negatively affected South Africa's exported-orientated manufacturing sector. Invariably, this price weakness fed through the supply chain and ultimately also impacted negatively on our margins.

The environment is unlikely to improve in the near term. In fact, the first quarter has seen the currency's upward momentum continue. The imperative for Transnet is to provide a competitive service regardless of exogenous factors such as the currency. Internationally, interest rates have started to climb, and commodity demand in China may be showing signs of peaking. We must therefore expect global growth to slow down and commodity prices to soften. These factors will impact negatively on our exports and Transnet's freight volumes. As we also expect local consumer spending to level off, we anticipate a year of modest yet higher GDP growth for South Africa.

Delivering on national policy

While we cannot fully insulate our business against these cold international trade winds, we should not allow them to distract us from our broader vision and purpose. We have a duty to deliver on the mandate of our Government and sole shareholder, as outlined by President Thabo Mbeki in his most recent 'State of the Nation' address and detailed in the budget vote of the minister of Public Enterprises. As a state-owned enterprise (SOE), Transnet is therefore committed to "discharge its responsibilities to our people as a critical player in the process of the growth, reconstruction and development of the country". Transnet has also been tasked to help make our economy more competitive, *inter alia*, by reducing the cost of doing business in South Africa. This means that we have to radically improve the quality of our transport infrastructure and services, increase Spoornet's freight capacity by 30% over the next five years, eliminate bottlenecks and inefficiencies at our ports and make our terminal operations truly world class.

Enterprise transformation

This year marks the beginning of a new era at Transnet. We have embarked on a course to transform Transnet into South Africa's pre-eminent transport services and logistics Group, a Group that will be focused and service orientated, expertly managed and highly respected in the local and overseas markets. I am confident that Transnet can deliver on this vision, and play its part in drawing the global economy closer to our shores.

We were challenged this past year by the adverse economic conditions which impacted on our business model, our bottom line, our customers and our economy.

We have recognised the need to redress this situation. The Board has approved a 4-Point Turnaround Plan which is designed to support the efforts of our economy, and our customers who compete in the global market place, by offering competitive services and infrastructure. We need the growth of our economy to accelerate if we are to address the socio-economic imbalances in our country.

Strategic plan

Our strategy is articulated in greater depth in the Group Chief Executive's report. The following priorities represent the thrusts of the new strategic direction of Transnet:

- Refocusing on our core competencies, mainly Spoornet, National Ports Authority and South African Port Operations.
- Exploring options for South African Airways (SAA).
- Improving the overall financial health and profitability of Transnet by shedding loss making, non-core operations.
- Restructuring the balance sheet to support the raising of new capital.
- Improving operational efficiencies within our core operations and modernising our rail infrastructure, enhancing capacity and reducing bottlenecks within our transport infrastructure and at our ports.
- Enhancing our customer orientation by raising service levels, offering fair and competitive pricing and rolling out a relationship management plan.
- Creating an integrated rail and port infrastructure with a logistic overlay.

We have proposed an ambitious R30 billion capital expansion and renewal programme for the next five years. We intend to fund this investment primarily out of cash flow and borrowings. To achieve this goal, it is imperative that we attain successes in key parts of our strategy, particularly in respect of improving our profitability levels and shedding non-core operations. This will strengthen our balance sheet and allow us to revert to the market for additional capital should the need arise. Where appropriate, we will also enter into public-private sector partnerships to facilitate our strategy.

New leadership

Ms Maria Ramos was appointed as Group Chief Executive with effect from 1 January 2004. Ms Ramos, the highly regarded former Director General of the National Treasury, brings extensive experience including an intimate knowledge of public sector finances to her new function. There is immense confidence in her ability to address some of our most pressing financial problems, including the funding of the pension fund deficit and the Company's debt. The new Group Chief Executive has been well received by our stakeholders especially customers, investors, financial institutions and organised labour, and is ideally qualified to facilitate our transformation process.

She is charged with the task of executing the transformation programme of the enterprise as envisaged by the new strategic framework. A newly created executive team under Ms Ramos will effectively address the structural, operational and financial challenges confronting the Group. The Board is confident that this team will deliver on the new strategy.

Socio-economic commitments and support for national developmental goals

We accept that our role as an SOE extends far beyond our primary mandate to provide transport and logistics solutions to our clients. As a business and a patriotic corporate citizen we are fully committed to broad socio-economic transformation. This encapsulates our black economic empowerment strategies, our employment equity policies and our corporate social investment programme carried out mainly through our humanitarian and philanthropic subsidiary, the Transnet Development Foundation.

Black economic empowerment (BEE)

Meaningful, sustainable transformation sits at the heart of a robust, dynamic and viable organisation. We endeavour to uphold the highest standards of professionalism and quality in our continued participation in the nation's economic transformation. Given our size and place in the economy, we have ranked BEE as a priority. Our track record in this regard bears testimony. We are motivated not only by the need to uplift previously disadvantaged communities but to draw them into the economic mainstream. We are also driven by our own strategic ambition to gain market share in a larger and more broad-based economy. At Transnet, economic empowerment is viewed as a competitive business tool. In this way we fulfil both our socio-economic developmental obligation as well as the business growth obligation towards our shareholder. This ensures that the goal of economic transformation is accomplished.

Over the past year, we have awarded contracts in excess of R2,8 billion to empowerment enterprises, R1,5 billion to small, medium and micro enterprises and R230 million to women-led and owned enterprises. We have done this responsibly and according to strict criteria. A Transnet Group Equitable Procurement and BEE Forum has been established, representing all divisions and business units, to make sure that the process is at all times fair and transparent.

HIV and AIDS

HIV and AIDS continue to have a debilitating effect on the country's social and economic life and on our own operations. We are committed as an organisation to playing a leadership role, to address and tackle key issues in the fight against HIV and AIDS.

Preventative strategies such as education, awareness campaigns and voluntary counselling and testing constitute the mainstay of our HIV and AIDS programme. These initiatives are supported by a lifestyle management programme which has been launched at most of Transnet's business units. We will pursue these initiatives aggressively, to ensure that all our employees benefit from the programme.

Corporate governance

In the past three years the Board of Directors of Transnet has laid emphasis on the importance of corporate governance. In that period the levels of awareness and understanding of corporate governance improved throughout the Company.

The King II Report on Corporate Governance and the protocol on corporate governance in the public sector have been adopted by Transnet. In keeping with our commitment to ethical business conduct, we seek to uphold the highest standards of personal and professional integrity and transparency in all aspects of our business.

Despite our strong principles and endeavours, events over the past two years have exposed weaknesses in our financial management systems and control structures. We have incurred severe losses as a result, mainly in respect of the SAA hedge book and the embedded derivatives related to the customer service contracts.

We continue to be resolute and endeavour to ensure that this will not happen again. To this end, we are implementing a risk management strategy across the Group that will align us with corporate governance best practice at all times.

Board of Directors

Transnet has a unitary Board comprising 14 non-executive directors and two executive directors. Board members are appointed by Government as the sole shareholder. During the year under review, changes were made to the composition of the Board.

The following new members were appointed to the Transnet Board as non-executive directors:

- Lord Bhattacharyya
- Professor Andy Andrews
- Mr Jeff Molobela

Mr Mafika Mkwanazi resigned as the Group Chief Executive of Transnet and executive director on the Board in March 2004. Ms Ramos succeeded him as both Group Chief Executive and executive director on the Transnet Board.

Mr Malixole Gantsho also resigned as a non-executive director during the year under review.

Ethics

The Group's code of ethics requires all our employees to act with utmost good faith and integrity. We are currently revising our code of ethics and conduct. This serves to regulate the behaviour of our employees, whilst performing their duties for and on behalf of Transnet.

The code seeks to address the following:

- Relationships with clients and suppliers.
- Employment equity.
- Environmental responsibility.
- Conflicts of interest.
- Compliance with relevant laws and regulations.

The code will be extensively communicated to all employees through training and change management sessions. Training will be mandatory for all employees.

Appreciation

On behalf of the Board, I would like to thank our outgoing shareholder representative, Minister Jeff Radebe, for his counsel and leadership. We wish him well in his new role as Minister of Transport and we look forward to working with him and his department in the policy environment of our enterprise.

In his place we welcome Minister Alec Erwin, formerly the Minister of Trade and Industry. We look forward to his leadership and the benefit of his experience and knowledge.

We also express our thanks and gratitude to the previous Group Chief Executive, Mafika Mkwanazi, for his valuable contribution over the nine years he spent with the Group.

We are confident that the incoming Group Chief Executive, Ms Maria Ramos, is fully equipped to lead the transformation of our Group and unlock its full potential. She enjoys the support of the Board.

I would also like to acknowledge the skills and experience that our Board brings to the table and we thank them for their efforts and commitment to Transnet. Their hard work lies at the heart of successfully overcoming the challenges and delivering the mandate of Transnet.

Finally, and most importantly, I would like to thank our many clients and customers for their ongoing support and understanding for exploring solutions to our common obstacles. We are committed to providing high quality, cost-effective services, as you seek to be competitive. Our strategy is designed to deliver on this commitment.

Dr Bongani Aug Khumalo
Chairman

20 August 2004

Group chief executive's statement

Maria Ramos

Transforming our legacy

In his State of the Nation address in May this year, President Thabo Mbeki defined Government's preferred role for Transnet in the South African economy. The President committed Government to ensuring that "the public sector discharges its responsibilities to our people as a critical player in the process of the growth, reconstruction and development of our country by reducing the cost of doing business in our country". This would require responding "to the diverse political, economic, social and technological challenges of the process of globalisation (by focusing) on the growth, development and modernisation of the First Economy (and responding) to the challenges posed by the Second Economy, which reflects the structural manifestation of poverty, underdevelopment and marginalisation in our country".

The current structure of Transnet does not provide the platform necessary to maximise the growth and competitiveness inherent in our economy. Given the results presented here, it is important to reflect briefly on the factors that have contributed to Transnet's current position. Transnet has shown an increasing inability to respond to the demands of its business environment. Our structure and size do not facilitate the ability to provide a competitive and integrated transport and intermodal service. In addition, inadequate corporate governance, lapses in financial discipline and risk management have resulted in poor operating performances and substantial financial impairments in many businesses within the Group. Inefficiencies, low margins, investment backlogs, aged assets and infrastructure as well as the maintenance costs of under-utilised rail networks and port infrastructure are undermining operational returns.

With the support of my executive team, I proposed a new strategic plan to the Board of Directors of Transnet which has been adopted and submitted by the Board to the Company's shareholder. Our strategy has been designed to meet the challenges posed by globalisation and to integrate the needs of our First and Second Economy. Transnet's core port and rail operations play a pivotal role in South Africa's First Economy and its increasing global exposure. Our infrastructure facilitates a large part of South Africa's local and international trade. Our performance is evaluated not only by local stakeholders and customers, but also by foreign trading partners and investors. It is essential that in assessing this country, our services are seen as a competitive advantage. We need to underpin South Africa's efforts to become globally competitive.

Installing efficient and appropriate transportation infrastructure will ultimately be to the benefit of our Second Economy. A country with an effective transport infrastructure is a country that can deliver attractive opportunities and investments to the global economy. Longer term, this will impact positively on the country's ability to attract fixed investment and ensure job creation and economic growth.

In this year's annual report we make a number of commitments to our stakeholders. We expect to deliver on these commitments and to be held to account accordingly.

Our new strategy

Our strategy is underpinned by a 4-Point Turnaround Plan:

- redirecting the business;
- restructuring our balance sheet;
- implementing and adopting strict corporate governance principles; and
- adhering to a vigilant risk management process.

In essence, our strategy encompasses the following:

- A new business profile. In order to meet our shareholder's requirements, the strategy will focus on our core areas of competence and those businesses where we can add the most value to the South African economy. As the custodian of port and rail infrastructure in South Africa, our strategy is to provide an integrated, seamless transport and logistics solution for our customers. We have therefore taken the decision to concentrate our long-term efforts on Spoornet, National Ports Authority and South African Port Operations. As has been done with National Ports Authority and South African Port Operations, we intend to separate the operational and infrastructural elements within Spoornet. This vertical separation will sharpen our focus and allow us to introduce inter alia, public-private partnerships more readily into the Group.

Petronet is also a strategic business. We plan to keep and develop this operation.

South African Airways (SAA) is not core to our long-term strategy. However, we recognise that it is a key national asset of which we currently have custodianship. We will be actively reviewing options together with the SAA Board and management team to ensure that the most appropriate long-term solution is found.

The balance of our assets are considered non-core and we have taken a decision to sell or disinvest from these businesses. These include operations such as freightdynamics, Fleet Call, Marine Data Systems, Virtual Care, Transtel, Autopax and Transnet Housing. The Government has already announced its intention to resume control over the passenger rail network and Transnet will accordingly cede control of Metrorail and Shosholoza Meyl to the Department of Transport in due course.

- Focus on economic returns. It is essential that we improve the margins and economic returns of Transnet in order to fund future capital expenditure requirements. In part, we will achieve this by streamlining the business profile, shedding loss-making operations, reducing the inherent business risk, radically restructuring our head office, cutting back on head office expenses and addressing legacy issues such as funding post-retirement benefits.

  As important though, is the need to improve the efficiencies within the operations. We have to raise the productivity of our workforce through the use of more advanced methodologies, retraining and improving systems and technology. In turn, we need to underpin their efforts by making our assets work harder. We aim to grow the revenue line, by generating economies of scale and developing a customer-orientated service culture.

  Finally, we need to provide the platform upon which a modern and competitive national rail and port transportation system can function. This will allow us to deliver on our promises and demonstrate our intent to customers. R30 billion has been earmarked for capital investment over the next five years. We are confident that we have identified key areas of capital expenditure and maintenance to provide physical infrastructure of the necessary quality.

- Strong customer orientation. Globalisation and our open economy have intensified the competitive environment. Our tariffs and margins are under pressure. South African businesses now have more transport options and we can no longer afford a 'take it or leave it' approach with existing and potential clients. We need to make our service both price and cost competitive while ensuring timely and reliable delivery.

  Our new strategy will have a strong focus on service levels. We need to improve our logistic capabilities and eliminate the bottlenecks inherent in our transport system. President Mbeki, in his State of the Nation address, committed to this process and tasked Government to work with Parliament to expedite the process of restructuring our ports in order to bring in new investment and lower the costs of moving imports and exports. We have therefore prioritised infrastructural improvements at our ports.

  Our investment in Coega is long term. The first phase of the infrastructure will be completed by September 2005. Our commitment to upgrade infrastructure at our ports is further demonstrated by the arrival of three cranes at the Port of Durban and the additional capacity that has come onstream at the Durban car terminal.

- Public-private partnerships. President Mbeki committed to "creating public-private partnerships and building government-civil society cooperation". We recognise that there is scope to explore public-private partnerships within key focus areas. Potential benefits include insight and experience in improving operational efficiency, raising capital and most importantly, putting in place appropriate risk sharing models.

- A restructure of our balance sheet. The proposed refocusing of our Group will impact positively on our balance sheet. We can substantially reduce borrowings if we successfully divest of all our non-core assets (with associated debt). By strengthening our balance sheet we can raise fresh capital in the market. This will be re-deployed in our core businesses and help reduce the present capital expenditure backlog.

- Management changes. We need to align the skills inherent in Transnet's executive team with the changes required by the Group's new strategic direction. We need leaders who are adept at driving and implementing change to ensure that we succeed. To this end, we are restructuring the management team and introducing an executive committee for additional support and direction. We have redefined reporting lines and, in further support of our strategic intent, we will streamline the head office operations. To succeed in the implementation of our strategy it is imperative that we have the commitment of our labour force. I am confident that together with the new structures this will allow us to implement our vision smoothly and efficiently.

- Heightened corporate governance. It is vitally important, especially during this period of transformation, that our strategy is transparent, that our decisions stand up to public scrutiny, and that we do not permit any conflicts of interest. To ensure that this is the case we need control mechanisms that are effective.

  As part of our corporate governance responsibility, we must ensure that we are fully compliant with all applicable laws, in particular the Public Finance Management Act No 1 of 1999 (PFMA). This has not always recently been the case. As evidenced by the substantial losses in respect of, *inter alia*, the SAA hedge book and the embedded derivatives that arise from the customer service contracts.

  Both our internal and external auditors have reported significant gaps in financial management processes and procedures which we are addressing.

We must also report that we have contravened the regulatory compliance procedures of the Commercial Paper Regulations, and issued commercial paper without the requisite prospectus and audit report. We violated not only the regulations but also our responsibilities under the PFMA. We are implementing new control structures to ensure that the correct procedures are implemented and followed.

Another key feature of corporate governance is risk management. It is one of the main tasks of the Board to protect the business from significant and inappropriate financial and business risks. In an enterprise as wide and as complex as Transnet, it is therefore imperative that appropriate risk management structures are in place, both at divisional and central level.

- Economic empowerment and employment equity. Broad-based black economic empowerment (BEE) remains a pivotal element of Government policy. As a state-owned enterprise with a high public profile, we will continue to follow sound and responsible empowerment principles, both in our procurement and our employment policies. I refer you to our corporate governance report for a review of Transnet's BEE programme.

- Transparency and accountability. In line with our commitment to transparency and accountability, I will use the annual report to provide feedback on our progress. It is my intention to be frank at all times: about the challenges facing Transnet, about the key financial and operational constraints that impact our performance, and about our proposed strategy. It is only by highlighting these issues and strategies that we can be measured and held accountable for our progress in future. It is for this reason that we have tabled our plan of action to stakeholders upfront, to create a reference point for our objectives and a road map that ensures we achieve those objectives.

Achieving our key objectives

It is important to set the context and the objectives of our proposed strategy. We cannot support our economy, and we cannot underpin the efforts of our customers, if we do not ourselves have solid foundations and a clear sense of purpose. It is therefore important that we transform Transnet into a Group that:

- is not only profitable but also generates an economic return for its shareholder;
- is adequately and appropriately funded;
- will be accountable to its shareholder for its financial and operational performance;
- is focused on its core competencies;
- is competitive both in terms of cost and service;
- will help improve the price competitiveness of the South African economy in the international market;
- is competently and effectively managed at all levels;
- will stand for high levels of corporate governance and ethics;
- will be transparent in its financial and operational performance;
- actively and responsibly promotes economic empowerment and employment equity;
- pursues social responsibility in a manner aligned with Government's objectives; and
- is seen as an employer of choice.

We do not yet have these solid foundations. Although the Group generated revenues of R43,6 billion this year, profit before finance costs of R187 million, tell only a small part of the story and do not reflect our full capabilities. Our strategy will address some of the following problem areas:

- Low returns: The reality is that our core businesses namely Spoornet, South African Port Operations and National Ports Authority collectively generate acceptable profitability levels. While this performance does not reflect their true potential, it indicates that our core operations are viable, even in their present guise. There is much we can do, in terms of reducing costs and improving efficiencies, to raise these returns to acceptable economic levels (13%-15%). This will enable us to finance our expansion plans.

  However, our Group in its entirety generated a ROCE of only 2,0% this year. This return is substantially below our cost of capital and makes it difficult to provide price competitive services or to justify further investment. Excluding the losses of non-core operations, which include SAA, Transtel and other divisions and entities, and the capital they absorb, we would significantly increase our ROCE. Removing other legacy issues such as the outflows attributable to post-retirement benefits and excessive head office costs, our ROCE would be higher.

  Another matter that requires urgent attention is our current head office structure, which incurred costs in excess of R600 million. This is excessive and undermines our efforts to reduce costs at a divisional level. We are committed to implementing the appropriate reduction as soon as possible.

- Losses: The Group posted an overall loss for the year of R6,3 billion. Losses erode our capital base and our ability to grow the business. A number of factors contributed to the current situation, including losses in non-core operations, inefficiencies in core operations, and high finance charges. In addition, the results are heavily burdened by impairment charges and derivative fair value adjustments.

  We have identified and ring-fenced many of the trouble spots to prevent their reoccurrence in future. However, these events have scarred our balance sheet and diverted much needed capital from our core operations. At another, more fundamental level, they suggest inadequate financial discipline and risk management. We are introducing appropriate governance structures to ensure that this does not re-occur.

- High gearing: Transnet carries almost R27,8 billion of borrowings on its balance sheet. This translates into a higher debt/equity ratio than we consider appropriate. A number of factors have contributed to our high gearing ratio, the most significant of which is the R11 billion fair value adjustment to the SAA hedge book over the past two years, and the R6,1 billion of equity we subscribed for near the end of our financial year to recapitalise SAA.

  Although the SAA hedge book was closed post-year-end, the Group is still burdened with net derivative liabilities of R8,7 billion. We also have to meet unfunded retirement obligations of R7,6 billion. These obligations cannot be funded out of operating cash flow and the existing debt levels make it hard to increase borrowings. However, we cannot deliver on our stated goals without additional capital. It is therefore imperative that we restructure our balance sheet, to ensure it can support our key objectives.

- Cash flows: Transnet's overall low operating margin inhibits its ability to generate strong operating cash flows, which are inadequate to fund the Group's full infrastructural needs. We need to improve our operating margins and eliminate those non-core businesses that consume our cash resources. We will make a concerted effort to reduce excess operational costs to enhance our margins.

- Investment: Transnet invests heavily in infrastructure, not only to replace and expand capacity, but also on ongoing maintenance (over R2,7 billion this past financial year, mainly in respect of Spoornet). As a result of our cash flow and gearing constraints, a number of key divisions have been starved of the capital needed to maintain, modernise and grow operations. Transnet has consequently built up a capital expenditure backlog and now faces requirements approaching R35 billion over the next five years. This undermines our service competence and competitiveness, and therefore our earnings and cash-generating potential.

- Excessive diversification: Over the years, Transnet has evolved into an unwieldy conglomerate with numerous non-core operations and subsidiaries. The synergies between the various business units are poor. Many of the non-core operations are generating losses and diverting capital and executive management time needed more urgently elsewhere. They create unnecessary complications and delays in the reporting and presentation of results and add to the Group's overall risk profile.

Financial overview

Income statement

Turnover. The Group delivered revenue growth of only 5,7% (from R41,3 billion to R43,6 billion), well below the average annual growth of 14% achieved over the previous three years, and also below the 2003 inflation figure (CPIX) of 6,8%.

Operating profit. This also fell well short of target, actually declining from R5,1 billion in the prior year to R187 million. With the bulk of our costs fixed and denominated in rand, it was always going to be hard to keep our cost base aligned with our revised revenue expectations. Adjusting for impairment charges, operating expenses increased by 10%. Cost containment will be an ongoing priority.

Expenses were negatively impacted this year by exceptional asset impairment charges (R4,2 billion versus R493 million last year) following a thorough asset review in terms of the Statement on Impairments (AC128). These impairment charges include a write-down of aircraft of R3,5 billion, a write-down of Transnet's investment in the Second Network Operator of R526 million and a write-down of property in Propnet of R134 million. Comparatives are further distorted by the R1,5 billion saving achieved last year following a change in the valuation basis of the South African Transport Services ("SATS") pensioners' post retirement medical fund.

Our posted operating margin stands at 0,4% this year. A business like Transnet, which is very capital intensive and has a high proportion of fixed costs requires double digit margins. Our operating margin has varied from a high of 12% (2003) to a low of 1% (2000) over the previous four years. The performance over the past three years was, however, distorted by one-off transactions such as the sale of MTN shares and aircraft. The Group's high operational gearing make accurate long-term earnings and cash flow projections almost impossible.

Net finance costs. Transnet paid R2,2 billion in net finance costs this year, 16% less than last year. Relatively low interest rates in South Africa, together with a delay in our capital expenditure programme offset the higher debt levels on the balance sheet. The high finance charges though, remain a drain on our profitability and, excluding one-off 'Other income', our interest cover is too low.

Taxation. Despite Transnet's accumulated losses, the organisation started to pay tax at a company level this year. This is indicative of significant, mostly non-cash flow accounting adjustments, which are reversed in the calculation of taxable income.

Fair value adjustments. In line with the Statement on Financial Instruments (AC133), SAA has had to account for a further R4,5 billion (2003 – R5,3 billion) to cover the fair value adjustment on their hedge book. R0,6 billion was raised by other business units in respect of fair value adjustments on embedded derivatives.

Balance sheet

Going concern. The fair value adjustments mentioned above have significantly eroded our capital base. The Board has considered all significant variables that may impact the Group's cash requirements and are satisfied that adequate funding is available to finance the ongoing requirements and thus considers it appropriate to adopt the going concern basis in preparing the annual financial statements.

As at balance sheet date Transnet was potentially exposed to a loan covenant requiring that, at all times, Transnet maintains a minimum consolidated tangible net worth. In order to avoid potential exposure, Transnet committed to make a voluntary prepayment of that loan facility.

Financial derivative liabilities. The R14,2 billion derivative liabilities relate mainly to SAA's hedge book and the embedded derivatives discussed below. The hedge book had to be written down again as a result of the continued strengthening of the rand. The hedge book was unwound post the balance sheet date.

In addition to the financial loss incurred from these derivatives, other areas of the business that required funds have been negatively impacted. Significant capital expenditure has had to be delayed over the past two years in order to cover this loss. Our new strategy will redress this situation.

Embedded derivative liabilities. Transnet has entered into service contracts with two major customers to handle and transport commodity products by rail. The contracts came into effect on 1 January 2002 and 1 July 2002 and have a contractual term of twenty five years and five years, terminating on 31 December 2027 and 30 June 2007 respectively.

Both contracts stipulate that the rail tariff charged by Transnet will be based on the US dollar commodity price prevailing at the date of transport. As a result of the tariff structures in these contracts, Transnet is exposed to foreign currency risk and US dollar commodity price risk.

Due to the tariff being linked to the US dollar commodity price, the contracts constitute a hybrid contract under AC133, made up of a host rand tariff contract and an embedded derivative. Since the embedded derivatives are not considered to be closely related to the host contracts, AC133 requires that the embedded derivatives be separated from the host contracts and measured at fair value, with changes in fair value reported in net profit or loss for the period.

The contracts also stipulate that the parties will notify each other of any event constituting a hardship and shall cooperate with regard to the alleviation of such hardship.

The Board, in finalising the value of the embedded derivative contained in one of the two service contracts and after taking all factors into account, is of the opinion that the terms of the existing contract will be successfully negotiated for the mutual benefit of both parties. Under these circumstances, management's best estimate of the fair value of the embedded derivatives contained in the two contracts is R4 532 million.

Borrowings. Total short and long-term borrowings increased from R22,6 billion to R27,8 billion during the year. We increased the Company's subscription to SAA's shares by R6,1 billion. In view of the additional fair value adjustment to SAA's hedge book this year and the significant asset impairments, SAA may require a further capital injection in 2004/2005.

Post-retirement benefits. The retirement obligation of R7,6 billion (R7,2 billion for 2003) relates mainly to the Transnet Second Defined Benefit Fund which covers some 90 000 members and which has a liability at year-end of over R5 billion. We are currently exploring options to fund this shortfall as required by the rules of the fund.

Divisional performance – results and successes

Spoornet reported a net loss of R668 million against a budgeted net loss of R564 million (2003 – net profit of R400 million). Subsequent to the year-end, Spoornet announced a R14 billion, five-year programme to upgrade ageing rolling stock and infrastructure. This will be funded through the capital markets and public-private partnerships. The capital expenditure plan is critical to Spoornet's turnaround strategy.

National Ports Authority's operating profit improved by 18%, while turnover increased by 12%. The business has continued to generate healthy margins and returns. The first full mission ship handling simulator was commissioned during the year and capital expenditure of over R1 billion was allocated to improve infrastructure.

South African Port Operations exceeded its planned operating profit by 9%, while cash generated from operations exceeded target by 17%. This has allowed South African Port Operations to reduce its gearing. Three terminals received NOSA five star ratings.

Petronet produced record results for the year, benefiting from its strong relationship with the Department of Minerals and Energy, as well as the first tariff increase in five years.

South African Airways turnover levels declined in a global environment that has seen a number of airlines collapse or undergo radical downsizing.

Prospects

We have set challenging goals for Transnet, which we plan to achieve within a realistic time frame. We hold ourselves accountable to our shareholder and our stakeholders to effect the proposed strategic changes as rapidly as possible.

Our Board and executive team is fully committed to realising this vision of a more robust, more focused and more customer-orientated Transnet. With their support, and the cooperation of our shareholder and stakeholders, we will navigate this period of change as smoothly as possible.

Appreciation

I wish to take this opportunity to thank the Chairman, Dr Bongani Khumalo, and the Board of Directors for their confidence in me and for their support of the strategy we must now implement.

I want to thank all Transnet employees for their hard work and dedication. We face a challenging time ahead of us but by working together, we can turn this company around.

To our clients and customers, I want to assure you that Transnet is totally committed to deliver the products and quality of service that meets your needs. I do not underestimate the challenges that lie ahead and I am deeply appreciative of the many initiatives proposed by our customers to find joint solutions for some of our most pressing problems. In the months ahead, we will explore these proposals and pursue appropriate partnerships to improve capacity and service delivery.

I also want to take this opportunity to thank the Executive Committee for their support. Much needs to be done and I know that by putting our energy, hard work and commitment together, we will succeed.

Maria Ramos
Group Chief Executive

20 August 2004

Corporate governance report

A matter of national policy

The degree to which corporations adopt sound corporate governance and regulate the relationship between management and shareholders has become an important factor in evaluating companies. Sound corporate governance practices engender the confidence necessary for the market economy to function properly. It lowers the costs of capital, encourages firms to use resources more efficiently, and underpins growth.

Our Government is well aware of this, and sound corporate governance has therefore become a matter of national policy. In May 2004 President Mbeki re-iterated the Government's commitment to respond "effectively to the requirement of corporate governance". As one of the leading state-owned enterprises we have an obligation not only to heed this call but to lead by example.

Strong commitment

Corporate governance within Transnet is concerned primarily with the responsibilities and fiduciary duties of the Board of directors, and the proper, lawful management of the Group. This is regulated by the Public Finance Management Act No 1 of 1999 (PFMA). Transnet's corporate governance procedures must ensure full compliance with all aspects of the PFMA.

In particular, the PFMA imposes strict fiduciary duties on Transnet's Board of directors, including the duty to exercise utmost care and to ensure the reasonable protection of its assets and records. In managing its financial affairs, the directors are required to act with integrity and in the best interests of Transnet and to prevent, where possible, any prejudice to the financial interests of the state. Directors are therefore obliged to maintain effective, efficient and transparent systems of financial and risk management and internal control, including a system of internal audit.

The Board is also responsible for the management and safeguarding of Transnet's assets and for the management of its revenue, expenditure and liabilities. It must take effective steps to prevent irregular as well as fruitless and wasteful expenditure.

As part of the 4-Point Turnaround Plan, referred to in the Group Chief Executive's statement, the Board is fully aware of its fiduciary duties and is committed to reviewing its corporate governance processes to ensure adherence to the PFMA.

Restructure

A new appointment to the executive team has been made who is responsible for legal compliance and risk management. The executive, who reports directly to the Group Chief Executive, will head up an executive sub-committee focusing on compliance and risk management to ensure that the correct structures and governance principles, as required by the PFMA and the King II code of conduct, are implemented and followed.

The executive sub-committee will ensure, *inter alia*, that in future:

- Transnet obeys all applicable laws, including tax, competition, labour, environmental, equal opportunity, health and safety laws;
- Transnet deals fairly with other stakeholder interests including those of employees, creditors, customers, suppliers and local communities; and
- Board members act on a fully informed basis, in good faith, with due diligence and care, and in the best interests of the Group and its shareholder.

The Board retains ultimate responsibility for Transnet's corporate governance practices. The new structures are designed to ensure that the principles and concepts are internalised across the Group. The new reporting lines render the process more transparent and hold the Group Chief Executive accountable to the Board.

Risk management

Risk management is one of the elements of a sound corporate governance policy. In terms of section 3 of the King Report on corporate governance, the Board assumes responsibility for designing, implementing and monitoring Transnet's risk management process.

Risk management procedures will be introduced to oversee internal audit and legal compliance, and ensure acceptable disclosure and reporting standards are followed, as required by the PFMA.

The Board must specify the types and degrees of risk that the Group is willing to accept. This forms a crucial guideline for management, who must manage these risks in order to meet the Group's desired risk profile.

The current structure also provides for an independent audit committee that will allow both the internal and external auditors to provide direct feedback to selected non-executive Board members. This will provide independent assurance that the Group's risk policies and guidelines are being followed.

Risk management is not only a question of supervision but also of internal controls. Internal controls are systematic, permanent procedures designed to minimise risks in the day-to-day operation of the business. It is therefore necessary that Transnet extensively reviews its enterprise-wide risk management tools in use, not only to manage risk across the Group, but also to align all aspects of the business with the requirements of corporate governance best practice.

Board of directors

Role and composition

Transnet has a unitary Board structure comprising 14 non-executive directors and two executive directors. The Government of the Republic of South Africa is the sole shareholder and appoints all directors. The shareholder appointed three non-executive directors and one executive director (Group Chief Executive Designate) on 4 September 2003. The Board approved the resignation of the Group Chief Executive (Mr ME Mkwanazi) with effect from 31 December 2003 and the appointment of Ms M Ramos as Group Chief Executive with effect from 1 January 2004. The articles of association of Transnet Limited require all non-executive directors to retire at every annual general meeting.

Divisional Boards, which had enabled the business units to determine and manage their own strategy, were recently dissolved with the approval of the shareholder to improve corporate governance. The main Board now manages the divisional operations.

Meetings of the Board

The Board is scheduled to meet ten times per year. However, extraordinary meetings are held to deal with urgent matters that arise between scheduled meetings. The Board met 18 times during 2003/2004.

Directors' details: 1 April 2003 – 31 March 2004

Name of directors	Date appointed	Number of meetings attended
Prof F Abrahams	16/11/2001	15
Prof GS Andrews	04/09/2003	2
Lord SK Bhattacharyya	04/09/2003	2
Mr SN Buthelezi	16/11/2001	15
Mr MM Gantsho	16/11/2001	
Resigned		
24 August 2003		7
Adv N Gomomo	16/11/2001	17
Dr BA Khumalo	16/11/2001	18
Ms FP Lembede	16/11/2001	18
Ms SN Mabaso*	16/11/2001	17
Mr ME Mkwanazi*	01/04/1996	
Resigned		
31 March 2004		15
Ms AMSS Mokgabudi	01/11/2000	14
Mr J Molobela	04/09/2003	4
Dr Y Muthien	01/11/2000	12
Mrs HN Ndude	16/11/2001	14
Mr ME Ramano	01/11/2000	9
Ms M Ramos*	04/09/2003	4
Mr JH Rowlands	16/11/2001	17
Mr PA Thompson	16/11/2001	16

** Executive*

Shareholder relations

The Chairman of the Board, the Group Chief Executive and the responsible minister representing the shareholder, meet regularly to discuss important matters affecting the Group. The shareholder provides a policy framework and approves all major policy decisions.

The protocol on corporate governance in the public sector dictates that the Company should enter into a compact with its shareholder. This compact provides for regular feedback to the shareholder on all matters affecting the Group.

HIV and AIDS

A lifestyle management programme was launched at most of Transnet's business units, with 9 000 employees participating in the voluntary counselling and testing programme. 450 employees have enrolled for the disease management programme. The focus is on preventative strategies, namely education, awareness campaigns, as well as on intensive voluntary counselling and testing.

Black economic empowerment (BEE)

Transnet's BEE procurement programme, now in its tenth year, has uplifted previously disadvantaged people on a sustainable basis by drawing them into the economic mainstream. Transnet views empowerment not only as a social obligation, but also as a means to establish new customers for its goods and services. It is an important tool to help grow market share, within a broader economic base.

In line with our shareholder's mandate and the broad-based Black Economic Empowerment Act, we have set targets for procurement from black enterprises. In addition, a procurement and BEE forum, with representation from all divisions and business units, has been instituted and all divisions now report on BEE procurement against stringent criteria. This ensures that the process remains fair and transparent at all times.

To assist emerging enterprises, a single-source SMME/BEE tender advice centre has been opened at the Carlton Centre in Johannesburg.

For the next financial year, we will focus on automated reporting, rolling out the e-commerce sourcing system (with built-in BEE reporting capabilities), completing the supplier contact centre website and the electronic tender bulletin. We will continue the drive to find more designated suppliers.

Employment equity

Transnet operates in highly competitive markets. Transformation has been a key factor in responding to the challenges emerging from those markets. Our organisation continues to make strides towards transforming itself into an organisation representative of South Africa's demographic profile and also one that is committed to the economic development of historically disadvantaged communities. This is evident in our employment equity successes over the last year:

- We have focused particularly on the development and recruitment of women at a senior and executive level during 2003/2004, both in operational and technical fields. Our appointments have increased the overall female representation in these areas to 18% and 17% respectively.
- The percentage of previously disadvantaged South Africans occupying executive, senior and middle management positions have increased from 67% to 73%. The representation of employees with disabilities has increased from 1% to 1,5%.

Corporate social investment (CSI)

The Transnet Foundation was officially constituted in 2001, bringing together the corporate social investment department and the heritage division of the Transnet Group. This brought all the Group's social responsibility functions under one roof. The Foundation comprises five social responsibility portfolios, namely health, education, arts and culture, sport and entrepreneurial development. It also includes five heritage products such as the Outeniqua Choo Tjoe Train (George), the Union Limited Train (Cape Town), SA Historic Flights (Pretoria), Kimberley Transport Museum and Outeniqua Transport Museum (Kimberley and George) and the Transnet Heritage Library (Johannesburg).

The Transnet Foundation has championed the cause of socio-economic development among the most vulnerable citizens of South Africa. In this way, it has played an active role in furthering South Africa's growth, both economic and humanitarian, over the past decade of democracy.

The Phelophepha Health Care Train is testimony to the innovative and humanitarian spirit of the Foundation. With 36 stops per year, it has brought health care to 1,7 million patients throughout South Africa over the past 10 years.

The Foundation has supported education by building 650 classrooms across the country. In contributing towards the infrastructure of the education sector, the Foundation is playing its part in creating a more conducive learning environment for the neediest of South African citizens.

The Transnet Theatre Trucks are an innovative way to restore under-utilised assets for the benefit of the arts community. These five horse-and-trailer trucks have been successfully converted into mobile performance facilities to bring the arts to people across the rural landscape of South Africa.

In another innovative solution the Foundation has converted containers into mobile police service centres for crime-ridden communities within the Limpopo province.

The SAFA Transnet Football School of Excellence identifies football talent among the youth of South Africa and ensures this talent is given the opportunity to grow to its full potential. The success stories of this programme include eight players who were subsequently selected to play for Bafana Bafana, the national soccer team.

Operational report – Spoornet

Spoornet focuses on the transportation of freight, containers and mainline passengers by rail

Spoornet is the largest division of Transnet. Its core business lies in freight logistics solutions designed along industry-based business segments, particularly in the mining and heavy and light manufacturing sectors.

Financial Overview

	2004 Rm	2003 Rm
Turnover	**13 422**	11 831
(Loss)/profit before tax	**(668)**	400
Net asset value	**5 455**	9 383
Turnover per employee	**0,39**	0,34
Return on average net assets (%)	**(9)**	5
Number of employees	**34 771**	34 662

Objectives

- Improve safety levels
- Improve customer satisfaction levels to ensure business growth and competitiveness
- Increase profitability through improved resource utilisation, cost control and prudent financial management
- Improve productivity and efficiency through enhanced asset utilisation to generate free cash flow for investment
- Attract, develop and retain skills and expertise to meet technical, operational and managerial challenges
- Correctly reward and recognise exceptional performance
- Establish leadership accountability across the organisation
- Review and eliminate restrictive and inappropriate labour agreements that compromise productivity

Spoornet is a freight railway operator, with an extensive rail network, operating in 18 African countries and with some interests in other parts of the world.

Review of operations

General freight lines – volumes railed for the year were 83 million tons against a budget of 84 million tons. Although close to budget, the performance reflects difficult trading conditions.

Coal Line – 66 million tons were railed, which was slightly above budget.

Iron Ore Line – At 27 million tons, the tonnage moved was marginally above the budget and 5,9% more than the previous year.

Shosholoza Meyl – underperformed by R31 million, due to lower-than-envisaged passenger numbers (16% below target). This was due to the combined effect of strong road competition, rolling stock failure and new customs requirements at the Mozambican border, causing delays at certain border gates. Erratic travelling patterns by Zimbabwean customers further exacerbated the situation.

LuxRail – underperformed in terms of revenue and passenger numbers, as a result of a fire which damaged one of the two train sets. It is intended to refurbish the damaged train set.

Spoornet International – recorded operating profit of R59 million, below budget of R62 million. The appreciation of the rand against the US dollar affected revenue.

Safety – The nature of Spoornet's business makes safety a primary concern. We experienced a tragic year with the highest level of employee fatalities (16) experience in the last decade.

To ensure Spoornet's safety record improves, the following initiatives have been undertaken:

- The restructure of the organisation at operational and head office level to ensure greater accountability and closer supervision.
- Implementation of recommendations of the Safety Gap Analysis which entails an extensive safety management system.
- Application for a safety permit to the regulatory authorities. This promises a new era of railway safety management for the business.

Performance

Spoornet reported a net loss of R668 million against a budgeted net loss of R564 million (2003 – net profit of R400 million).

Spoornet's results have been impacted upon by the embedded derivative liability that arises out of service contracts entered into with two customers. Seventy six percent of the value of the embedded derivative liability recognised at 1 April 2003 and 31 March 2004 is attributable to Spoornet.

Highlights

- The iron ore line achieved 95% channel throughput for the year and a record weekly tonnage of 585 000 tons.
- The coal line railed 415 000 tons of export coal for empowerment companies through the "common user" agreement with Richards Bay Coal Terminal.
- A total of 246 locomotives were overhauled or upgraded, compared to 204 and 171 in the previous two periods.
- Collaborative projects with customers were implemented to improve relationships. As a result, we have changed the service design to improve operational efficiencies and increase tonnages. Significant benefits and savings are already evident.
- The termination of the Sasol supply agreement on 31 December 2003 has changed fuel distribution, resulting in longer rail distances and increased revenue. About 60% of the portfolio's product is now sourced from coastal rather than inland refineries.
- Spoornet received gold and silver awards at the Logistics News' annual "Logistics Achiever Awards", for optimising the entire manganese and petroleum supply chains.
- The Blue Train won the Diners Club International Merit Award (gold).
- Use of the employee assistance programme has increased steadily since inception, reaching 12% during the year and reflecting the success of the HIV and AIDS awareness campaign.
- Over 22 000 employees have experienced these awareness programmes, and more than 10 000 have undergone voluntary testing and counselling (a representative sample of over 30% of the total workforce).

Prospects

Spoornet announced a R14 billion, five-year programme to upgrade aging assets and infrastructure and procure new locomotives and wagons. The programme will be funded by capital market raisings and public-private partnerships. The massive capital expenditure plan will be critical to Spoornet's turnaround strategy, which is based on the following focus areas:

- customer service
- operational efficiency
- safety
- profitability
- attracting and retaining a skilled workforce.

Operational report – National Ports Authority (NPA)

NPA provides port infrastructure and marine-related services, manages port activities in a landlord capacity at South Africa's seven, soon to be eight, major ports.

South African ports have faced rapidly increasing trade resulting from the country's economic growth and globalisation. Operational challenges include:

- rapidly changing technology
- the increasing bargaining power of customers and suppliers
- the emergence of global terminal operators
- ever-changing distribution patterns

Financial Overview

	2004 Rm	2003 Rm
Turnover	4 549	4 062
Profit before tax	2 140	1 632
Net asset value	7 215	5 427
Turnover per employee	1,28	1,12
Return on average net assets (%)	34	28
Number of employees	3 544	3 627

Objectives

- Ability to acquire additional land for long-term port expansion requirements in line with growth.
- Expand port infrastructure within environmental constraints.
- Securing tenants for the new port of Ngqura in line with expected port completion dates.
- Building and entrenching a culture of customer service among all employees.
- Creating a common vision among different port cities on future expansion requirements.
- Reducing port costs despite past underinvestment in infrastructure.
- Improving terminal efficiencies, information technology and intermodal connectivity.
- Retain scarce skills in a competitive environment.

NPA is South Africa's gateway to global trading. NPA manages the country's seven major commercial ports, each with a defined market and specialised services, and shares its expertise with ports across the continent.

Review of operations

To improve South Africa's global competitiveness, capital works programmes have been intensified, particularly in the port of Durban, where significant growth has led to capacity constraints. In phase 1 of the Durban project, NPA will spend R1,6 billion on increasing container capacity. A project to provide world-class car handling facilities at the port has been completed and widening of the port's entrance channel has commenced. The construction of the port of Ngqura is progressing well and South Africa's eighth commercial port, with the capacity to handle new-generation vessels requiring deeper drafts, is expected to be operational by the end of 2005. Design to expand the container terminal capacity at the port of Cape Town is under way. The environmental impact analysis has been completed and we are awaiting the decision from the environmental authorities.

NPA is well prepared to comply with the new International Maritime Organisation ISPS code which came into effect on 1 July 2004. This will help protect international shipping from potential terrorist attacks. For South African ports, this has required a R200 million investment in appropriate security infrastructure. Security plans for each port have been developed in conjunction with South Africa's security structures, including the relevant branches of the South African Police Service.

NPA's consultancy division, Portcon International, is establishing partnerships and strategic alliances in selected African countries, facilitating empowerment and transfer of skills. Being an African company gives NPA a competitive advantage in addition to its cost advantages. During the year, NPA secured a 25-year concession with a Ghanaian partner, to build, operate and transfer a devanning and clearing terminal at the Port of Tema, Ghana. Portcon has also been contracted to provide operator lifting equipment training in Mozambique.

During the year, NPA rolled out a number of successful initiatives to develop skills and performance. The first full mission ship-handling simulator in southern Africa was commissioned at Portcon International Training Centre in Durban. The simulator will assist NPA in training and development.

A major change management programme was introduced throughout NPA to meet and exceed customers' expectations. This will allow us to remain competitive in a fierce international trading environment.

Risk management performance again improved during the year despite the high base set in the prior year. However, the disabling incident frequency rate (DIFR) was slightly above target and the business continuity management compliance level was below that of last year. Appropriate corrective measures are being taken.

NPA's HIV/Aids programme has been rated among the top three in South Africa. During the year, the lifestyle management and voluntary counselling and testing programmes were successfully rolled out. Significant progress was made in peer education for employees and relatives in caring for terminally-ill employees at home.

Given that port business takes place in ecologically-sensitive areas, NPA is implementing a structured world-class environmental management system at all ports. Two ports achieved ISO 14001 certification during the period, East London and Saldanha. NPA is the first port authority in Africa to attain this achievement. The other ports are expected to achieve certification in the new financial year.

Performance

For the review period, NPA's operating profit improved by 17,9%, while net profit increased by 31,1%. Turnover of R4 549 million was 12,0% higher than the previous year. Capital expenditure grew to R1,2 billion as a result of major capital expansion projects.

Twenty-foot equivalent units (TEU) landed and shipped increased 21,6% and 24,7% respectively for the period. The increase in container imports was largely due to the stronger rand, which boosted imports of manufactured goods, particularly for the retail industry. Despite currency strength, exports performed reasonably well, partly due to the growing trend of containerisation. Total bulk and breakbulk tonnage landed increased 20,1% while shipped tonnages increased only 7,2%. The nature of NPA's business limits the immediate impact of currency fluctuations on revenues as most clients are committed to contracts which restricts them from cancelling orders at short notice.

Highlights

- Turnover up 12,0%, net profit up 31,1%
- First full mission ship-handling simulator commissioned
- Capital expenditure of over R1,2 billion to improve infrastructure

Prospects

Activity levels for the new financial year are likely to match those of the review period. NPA will pursue cost containment strategies, as revenue growth strategies will take time to make a meaningful contribution to the bottom line.

In partnership with customers, NPA will identify ways to enhance their competitiveness, particularly through improvements in the operational efficiency of the port system. We also aim to provide sufficient capacity in the port system to meet the growing requirements of port users.

Operational report – South African Port Operations (SAPO)

SOUTH AFRICAN PORT OPERATIONS

SAPO manages port terminal and cargo operations through a number of strategically segmented and commercially viable business units.

Most Southern African import and export commodities are handled through South Africa's six largest ports, ie Richards Bay, Durban, Saldanha, Cape Town, Port Elizabeth and East London. SAPO not only handles these cargoes but implements logistics management solutions for its container, bulk, breakbulk (multi-purpose) and car terminal operations.

Financial Overview

	2004 Rm	2003 Rm
Turnover	**2 949**	2 344
Profit/(loss) before tax	**348**	(86)
Net asset value	**1 151**	1 697
Turnover per employee	**0,54**	0,42
Return on average net assets (%)	**24**	(4)
Number of employees	**5 464**	5 645

Objectives

- The level of management expertise in place at the various SAPO terminals is not commensurate with the size of such business units. The key management positions in each of the business units are presently being evaluated in terms of the required level of skills and experience.
- Improve operational efficiency to acceptable standards. Not all SAPO terminals have operation processes that comply with best practice. Improved management of capital investment and appropriate management expertise needs to be implemented to correct operational processes.
- Improve service delivery to meet customer expectations and acceptable norms.
- Enhance integration between SAPO and other modes of transport to improve planning, utilisation of assets, efficiency and reduce cost to the cargo owner.

SAPO focuses on port terminal and cargo operations in commercially and strategically segmented business units. In line with the global trend towards port commercialisation, SAPO is investing in resources, technology and infrastructure to deliver more value to customers.

SAPO operates 13 cargo terminals across six South African ports. Volumes handled during the review period increased in most sectors:

- Containers 2,5 million 20-foot equivalent containers
- Breakbulk 13 million tons
- Bulk 44 million tons
- Vehicles 232 000 units

R385 million was invested in infrastructure and equipment to increase capacity and service delivery while R20 million was spent on enhancing the technical expertise of our people and our technology.

Review of operations

Containers

During the year under review SAPO's three container terminals handled 2,5 million 20-foot equivalent units (TEU), an increase of 6,6% compared to the previous year.

To meet continued growth in the container sector, SAPO is currently busy with a number of capacity expansion projects. Service agreements have been implemented with customers and incentive performance programmes introduced for employees.

Breakbulk multi-purpose terminals

Breakbulk volumes continued to decline year on year, with 13 million tons handled at the seven multi-purpose terminals. This reflects negative growth of 2%, mainly due to the move from breakbulk to containerisation.

The performance of the multi-purpose terminals has been mixed and turnaround strategies are in place to improve the performance of the two loss-making terminals.

Bulk terminals

Volumes increased by 5,2% over the previous year to a total throughput volume of 43,6 million tons. Record volumes of over 28 million tons were handled at the bulk terminal in Saldanha.

Car terminals

Compared to last year, volumes increased by 43,4% to a total of 232 000 units handled at Durban, East London and Port Elizabeth.

Performance

Financial

SAPO exceeded its planned net operating profit by 12,3%. Cash generated from operations exceeded target by 119%. All financial risk ratios have shown steady improvement.

SAPO's results have been impacted upon by the embedded derivative liability that arises out of service contracts entered into with two customers. Twenty four percent of the embedded derivative liability recognised at 1 April 2003 and 31 March 2004 is attributable to SAPO.

In addition to improved profit levels, existing loans were redeemed early and capital expenditure was financed from internal resources. Structured capital planning resulted in prioritised investments and expansion geared towards operational efficiency and customer demands.

Customer/stakeholder perspective

Strategic partnerships have been established with key players in the supply chain. These relationships have resulted in supply-chain initiatives being implemented in many sectors, including automotive, ferrochrome and ferromanganese, granite and steel. Transnet business units are working together to integrate service execution for the benefit of customers.

Internal business processes

A collaboration agreement has been signed between labour and management, establishing the foundation for cross-functional productivity teams at terminals.

Innovation and learning

Training programmes include specialised training to develop core competencies as well as generic development courses. Training for succession planning was done for 95 people from all levels of management. Competencies developed for succession planning ranged from leadership development to supervisory skills training.

Highlights

- An interim advisory board was established at all container terminals which has led to performance improvements
- NOSA 5-star ratings were achieved at the Cape Town multi-purpose terminal and the Durban and East London car terminals
- Enrolment increased in the employee wellness programme
- A national education campaign targeted secondary and tertiary learners in science and engineering
- ISO 14001 was implemented at the Saldanha multi-purpose terminal
- The Saldanha bulk terminal continues to break loading rate records.

Prospects

SAPO has prioritised its strategic objectives for the new financial year, foremost of which is to increase the shareholder value of its business units. A consolidated capital investment plan is being developed to help SAPO achieve world-class terminal operations standards and build core competencies. As part of this initiative, a comprehensive risk management programme will be implemented.

Operational report – Petronet

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

The liquid fuels network traverses the provinces of KwaZulu-Natal, Free State, Gauteng, North West and Mpumalanga. The intake stations are the two Durban refineries, the crude refinery at Coalbrook (Natref) and the Sasol 2 and Sasol 3 synfuel plants at Secunda. The network includes a tank farm with a capacity of 30 million litres at Tarlton.

Financial Overview

	2004 Rm	2003 Rm
Turnover	**919**	759
Profit before tax	**239**	120
Net asset value	**1 722**	1 389
Turnover per employee	**1,62**	1,33
Return on average net assets (%)	**15**	6
Number of employees	**568**	571

Challenges

- Prepare for commercial and technical regulation of petroleum and gas pipelines
- Manage and counter challenges associated with the new fuel supply dispensation in South Africa at the end of the Sasol Supply agreement
- Implement Project SMART (business transformation) with best HR practices and business principles
- Replacement of the Durban-Johannesburg Pipeline (DJP) by 2010
- Servitude integrity – improve servitude management in general, minimising risk of 3rd party activities on pipelines
- Respond to integrated logistical needs of our two key industries (fuel and gas).

Petronet transports petroleum products and gas through a high-pressure, long-distance pipeline network.

The termination of the Sasol supply agreement on 31 December 2003 means that individual oil companies now negotiate directly with Sasol for supply. This has introduced unprecedented volatility in demand for Petronet's services and concomitant pressure on existing infrastructure. Petronet responded by introducing new systems and processes to manage demand. This fundamental shift in the industry is expected to take 12–18 months to stabilise.

Review of operations

Petronet transported record levels of crude oil during the year. The line operated at full capacity while the higher-margin refined products line had spare capacity. Since year-end, this has reversed. Petronet's refined products line has received industry recognition for its safety, security and environmental compliance.

The implementation of ISO standards and processes continued during the year, and the benefits of enhanced business processes and a keener understanding of risks are already evident. Full certification is expected to be achieved in the new financial year.

The implementation of duty at source by South African Revenue Services during the year had less of an impact than expected and Petronet was able to maintain market share.

The petroleum industry, and Petronet in particular, enjoy strong support from Government as reflected in the exceptional progress made in recent years in liberalising the industry. With globally-applicable self-regulatory rules in place, Petronet is well prepared for the introduction of new legislation in the current year and the appointment of a pipeline regulator. It will be a challenging period, including licence applications and tariff negotiations, but all stakeholders are committed to the process.

Performance

Petronet produced record results for the year, benefiting from its strong relationship with the Department of Minerals and Energy and the first tariff increase in five years. The 7% increase for the review period will be followed by an agreed 5,5% in the new financial year.

Petronet's return on assets of 14% for the year is in line with international benchmarks and reflects steady growth through cost containment and increasing operational efficiencies.

The Company has overcome the challenges of recent years by consolidating operations, managing business fundamentals and strengthening relationships with all stakeholders to achieve mutually beneficial outcomes.

During the year, Petronet provided technical input to the feasibility study by PetroSA for piping gas from Namibia to Mossel Bay and the Eastern Cape.

Highlights

- Record results after first tariff increase in five years
- Return on assets in line with international benchmarks
- Volatile demand patterns well managed
- Self-regulation processes ahead of new legislation
- Strong relationship with Government, particularly the Department of Minerals and Energy

Prospects

The challenge for Petronet is to maintain volumes and further improve profits by increasing volumes in its refined products line. Plans to replace the oldest line are well advanced, with a R3 billion replacement project expected to start in the 2006 financial year to meet additional capacity demands by 2012.

In expanding its non-regulated business, Petronet is well placed to realise its long-term aim of providing a seamless logistical service that also includes managing depots and terminals for third parties.

There are inherent risks for any industry undergoing transformation and the petroleum and gas industry will be no exception. Industry consolidation, fluctuating production levels and legislation could combine to threaten the equilibrium in the supply/demand chain. Petronet is confident that a solid base is in place to mitigate these risks.

Operational report – South African Airways (Pty) Limited

South African Airways (SAA) is Africa's leading airline, servicing more than 20 destinations across the continent, carrying passengers and freight to 40 cities in more than 30 countries on six continents.

SAA has evolved from a low-frequency international airline to a leading and regular service provider for South African and international customers.

Financial Overview

	2004 Rm	2003 Rm
Turnover	**16 339**	17 342
Loss before tax	**(8 730)**	(6 197)
Net asset value	**(2 573)**	(1 410)
Turnover per employee	**1,30**	1,60
Number of employees	**12 556**	10 855

Challenges

- SAA's current levels of profits do not provide an adequate cushion to meet the periodic bouts of turbulence faced by the airline industry. To counter this, management has embarked on a radical, three-year cost reduction programme to significantly boost operating profitability.
- Oil prices have a major impact on the profitability of the Company. Fuel costs contribute approximately 20% to SAA's cost base. SAA has embarked on a process, in line with an approved risk management strategy, to manage the risk of volatile oil prices.
- SAA's Africa and long-haul network is constrained by lack of bilateral landing rights, limiting growth and profit opportunities. SAA will enlist Government to support increased access to African markets and will continue with the three-hub strategy in Africa.
- Low cost carriers are capturing low-yield passengers in the domestic markets and other international airlines are formidable competitors in the African market. SAA will increase its direct distribution channel to offer competitive prices in the domestic market.

SAA is independently rated as Africa's leading airline and one of the top 10 trans-atlantic airlines in the world. Celebrating its 70th year in 2004, SAA's competitive advantage lies in frequency and range. The fleet renewal programme under way will entrench SAA among the global leaders in safety, comfort and fuel efficiency.

Review of operations

In March 2004, SAA applied to join Star Alliance, a network of 15 airlines that share facilities, frequent flyer miles and connections for more convenient travelling. As a member of Star Alliance, SAA will offer passengers access to 700 airports in 128 countries, entry to over 550 lounges, priority reservation, standby and Boarding, priority baggage handling and the most flexible round-the-world fares. The multi-faceted benefits of this alliance are expected to generate substantial additional foreign income for SAA.

During the year, SAA realigned its structures, improved revenue management and yields and enhanced operating efficiencies. To generate customer loyalty in a highly competitive sector, SAA has focused on customer service, product features and delivery.

It is renewing its fleet – with the first of 41 new Airbuses delivered in January 2003 – controlling costs and it is quickly shifting from transformation mode to a transformed operation. With 16 Airbus aircrafts already in operation, SAA is well on its way to having one of the youngest fleets in the world and the largest in Africa.

Passenger numbers remained constant at 6,5 million despite the effects of SARS and the Iraq war, reflecting the benefits of SAA's focus on frequency and destinations and competitive pricing. A dedicated customer service division was established to ensure an integrated approach to the various initiatives under way and the internal training programmes that underpin a customer-focused business.

SAA Cargo increased volumes by 20% to 166 million tons of cargo, some 53% as exports. Given that freight transport is increasing at double the rate of passenger traffic, the new Airbus fleet offers significant opportunity for SAA to earn additional revenue and meet demand for space.

SAA Technical has highly sophisticated workshops, the largest hangar space in Africa and over 36 000 m^2 set aside purely for major maintenance projects. As one of the world's leading aircraft maintenance and repair organisations, SAA Technical places great emphasis on quality. Regular audits are conducted to ensure global standards are maintained.

Performance

The financial year to March 2004 saw the average rand exchange rate against the US dollar strengthen by 26% to a level of R7,15 compared to an average rate of R9,53 for the year to March 2003. This has had significant consequences for SAA's results.

The appreciation of the rand was the main contributor to a 6% decrease in revenue for the year under review as passenger numbers remained consistent with those of the previous year. Passenger revenue decreased 5,6% to R12 926 million (2003: R13 688 million). The decrease is mainly due to a reduction in yields (prices) caused by the stronger rand and increased competition.

Operating costs decreased by 5% to R15 918 million (2003: R16 730 million). The decrease in operating costs was mainly attributable to the stronger average rand. The lower US dollar based costs were partially offset by increases in the following rand-based costs: labour, depreciation, promotion and advertising.

In compliance with GAAP, SAA performed a mark-to-market valuation of its hedge book at the end of its financial year. The mark-to-market position is dependent on the rand/US$ exchange rate, as well as interest rate differentials between South Africa and the United States of America at the date the mark-to-market valuation is performed. This mark-to-market has resulted in the recognition of a charge in the income statement of R4 485 million (2003: R5 284 million).

During the year, SAA, together with its major shareholder and in consultation with Government, made a decision to settle the hedge portfolio. This process commenced in April 2004, and was completed during June 2004.

In compliance with the requirements of the accounting statement AC128: Asset Impairment, SAA has impaired all of its owned aircraft to realisable market value in US dollar terms. The result of this is that the airline has recorded total impairment losses amounting to R3 554 million (2003: R35 million).

As a result of the negative mark-to-market, and the asset impairment provisions raised, SAA posted a net loss of R8 730 million and is, at year-end, technically insolvent to the amount of R2 573 million (2003: R1 410 million).

Highlights

- SAA turns 70, carrying 6,5 million passengers and completing over 219 000 connections per week
- Voyager turns 10 with 1,5 million members and 43 global partners
- Voted best airline in Africa for 12th consecutive year against stiff competition
- Ten international awards for excellence received in 2003.

Prospects

SAA faces tough competition in international markets where the bargaining power of passengers is much stronger than carriers. As such, SAA has to implement improvements ahead of rivals. This requires a customer-focused approach, the best technology, building brand loyalty and a reputation for safety. By generating long-term customer loyalty, SAA is paving the way for commercial success and long-term profitability.

Audit committee approval

We are pleased to present our report for the financial year ended 31 March 2004 as recommended by the King II Report on Corporate Governance.

The Audit Committee of the Transnet Board of Directors is composed of four non-executive directors. The committee held four scheduled meetings and nine special audit committee meetings in the 2004 financial year.

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

In the conduct of its duties, the audit committee has, *inter alia*, performed the following activities:

- received and reviewed reports from both the internal and the joint external auditors, and from forensic investigations concerning the effectiveness of the Group's internal control systems;
- reviewed the reports of both internal and the joint external auditors detailing their concerns arising out of their audits and ensured that there are appropriate responses from management which will result in their concerns being addressed;
- considered the effectiveness of internal audit and the adherence of internal audit to its annual programme;
- considered the risk areas identified by management, internal and the joint external auditors that the Group is exposed to and deliberated the extent to which these risks are covered by the scope of the internal and the joint external auditors' work programmes;
- considered the Group's compliance with legal and regulatory provisions to the extent that such issues have been brought to the attention of the audit committee by either management, internal audit or the joint external auditors.
- reviewed and recommended for adoption by the Transnet Board such financial information that is publicly disclosed, which for the year under review included:
  - The annual report for the year ended 31 March 2004.
  - The interim results for the six month period ended 30 September 2003.
- considered the independence and objectivity of the joint external auditors and ensured that the scope of their additional services provided were not such that they could be seen to have impaired their independence; and
- made appropriate recommendations to the Board of directors regarding the corrective actions to be taken as a consequence of audit findings.

In the opinion of the audit committee, the internal controls of the Group are considered to be appropriate to:

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

Where weaknesses in specific controls have been identified, management has undertaken to implement the appropriate corrective action to mitigate the weaknesses identified. None of these weaknesses constituted a material breakdown in the internal controls of the Group.

The audit committee has evaluated the annual report for the year ended 31 March 2004 and considers that it complies, in all material respects, with the requirements of the Companies Act, as amended, of South Africa, the Public Finance Management Act and Statements of South African Generally Accepted Accounting Practice. The audit committee concurs that the adoption of the going concern premise in framing the annual financial statements is appropriate. The Audit Committee has therefore recommended the adoption of this annual report by the Board of directors at their meeting on 20 August 2004.

Ms AMSS Mokgabudi
Chairperson: Transnet Audit Committee
20 August 2004

Contents to the annual financial statements

Approval of annual financial statements

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

– select suitable accounting policies and apply them consistently;

– make judgements and estimates that are reasonable and prudent;

– state whether applicable accounting standards have been followed; and

– prepare the annual financial statements on the going concern basis unless it is inappropriate to presume that the Company and/or the Group will continue in business for the foreseeable future.

The directors are of the opinion that they have discharged their responsibility for keeping proper accounting records that disclose with reasonable accuracy the financial position of the Company and the Group.

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

The external auditors, Deloitte & Touche and APF Inc., are responsible for independently auditing and reporting on the financial statements in conformity with South African Auditing Standards. Their unqualified report on the annual financial statements in terms of the Companies Act and in terms of the Public Finance Management Act appears on page 35.

The audit committee has reviewed the effectiveness of the Group's internal controls and considers the systems appropriate to the effective operation of its business. The audit committee has evaluated the Group's annual financial statements and has recommended their approval to the Board of directors. The audit committee's approval is set out on page 32 of the annual report.

In preparing the annual financial statements and Group annual financial statements set out on pages 37 to 124, the Group has complied with South African Statements of Generally Accepted Accounting Practice, the Companies Act in South Africa and the reporting requirements of the Public Finance Management Act and has used appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors are of the opinion that these annual financial statements fairly present the financial position of the Company and the Group at 31 March 2004, and the results of their operations and cash flows for the year then ended.

Maria Ramos
Group Chief Executive Officer

20 August 2004

Bongani Aug Khumalo
Chairman

20 August 2004

Report of the independent auditors

To the Minister of Public Enterprises

We have audited the annual financial statements of Transnet Limited and the Group set out on pages 37 to 124 for the year ended 31 March 2004. The annual financial statements of Transnet Limited and the Group are the responsibility of the Transnet Limited accounting authority. Our responsibility is to express an opinion on these annual financial statements based on our audit. The performance information is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information furnished in terms of sub-section 52(2)(a) of the Public Finance Management Act 1 of 1999, as amended, is fair in all material respects and, on a basis consistent with that of the preceding year.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards issued by the South African Institute of Chartered Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 60 and 61 of the Public Finance Management Act 1 of 1999, as amended, have been complied with.

An audit includes:

– examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements;
– assessing the accounting principles used and significant estimates made by management; and
– evaluating the overall annual financial statement presentation.

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

Audit opinion

In our opinion:

– the annual financial statements fairly present, in all material respects, the financial position of Transnet Limited and the Group at 31 March 2004, and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act 61 of 1973 in South Africa, and the Public Finance Management Act 1 of 1999, as amended;

  Without qualifying our audit opinion, we draw your attention to:

  Embedded derivatives

  – the accounting treatment of the embedded derivatives, as described on pages 39 and 40 of the directors report and Annexure B, on pages 116 to 119 to the annual financial statements. Significant assumptions and judgement have been applied to determine the fair value of the embedded derivative, in accordance with South African Statement of Generally Accepted Accounting Practice AC133, Financial Instruments: *Recognition and Measurement*;

  Going concern

  – the directors report dealing with going concern and loan covenants, which discusses the directors opinion on the going concern assertions and the potential impact of exposures arising from loan covenants;

– the performance information as envisaged in sub-section 55(2)(a) of the Public Finance Management Act 1 of 1999 has not been included in the annual financial statements and we therefore cannot express an opinion; and
– the transactions of Transnet Limited and the Group that had come to the auditors attention during the audit were in all material respects in accordance with the mandatory functions of Transnet Limited, as determined by law or otherwise, with the exception of the matters outlined in the directors report under the heading of Public Finance Management Act that Transnet Limited has contravened the regulatory compliance procedure of the Commercial Paper Exemption Notice.

Deloitte + Touche

Deloitte & Touche

Registered Accountants and Auditors
Chartered Accountants (SA)

APF CA(SA) Inc.

APF Inc.

Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
20 August 2004

Report of the company secretary

COMPANY SECRETARY STATEMENT

In terms of section 268G(d) of the Companies Act 61 of 1973, as amended, I certify that the Company has lodged with the Registrar all such returns as are required by the Companies Act and that they are true, correct and up to date.

TM Melk
Acting Company Secretary

Johannesburg
20 August 2004

Report of the directors

The Directors have pleasure in presenting their report and the audited annual financial statements of Transnet Limited and the Group for the year ended 31 March 2004. The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and comply with the requirements of the South African Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, 1 of 1999, as amended, and the related Treasury Regulations except as noted in this report.

NATURE OF BUSINESS

The Group operates businesses involved in transport and logistics, and its operations span railways, road transport, aviation, port and harbour operations and fuel pipeline networks. The strategic intent of the Group is to provide integrated, seamless transport and logistics solutions for our customers.

Overview of rail and port services

The Board recognises the pivotal role that Transnet plays in the economic and social development of the South Africa. The Group's business units that operate the rail and port service infrastructure occupy a strategic position on the logistics and supply value chain of some of South Africa's major industries. The competitive advantage of these industries, particularly those oriented towards the export markets, is closely dependent on the efficiency of the rail and ports services that Transnet operates. Regrettably, maintenance and investment in the operating assets of the ports and rail infrastructure has been inadequate. The outcome has been unreliable, ageing infrastructure and equipment which has resulted in under servicing and unsatisfactory service levels to customers.

The Board is fully committed to ensure that the rail and port facilities operated by the Group provide world-class facilities and contribute positively to the country's economy. To deliver on this commitment, Transnet has approved a major capital investment budget to upgrade the rail infrastructure, rolling stock, port equipment and facilities. R6 600 million will be invested by Spoornet over the next three years on rail infrastructure and rolling stock. This investment is expected to improve capacity of the general freight businesses and enhance efficiency of the rail network.

In addition, Transnet has approved a capital investment plan amounting to R5 700 million over the next five years to upgrade port facilities and equipment across the Group's port infrastructure. At the completion of these projects, the ports will possess the capacity to cope with the growth in the country and the region's maritime trade and is expected to contribute to the competitive advantage of the country.

Major transport business

The major businesses of the Group are dominant in the industries in which they operate and are as follows:

Spoornet*	Freight and rail operator.
South African Airways (Pty) Limited	Major commercial airline with extensive global operations.
National Ports Authority*	Owns and manages South Africa's seven major ports at Cape Town, Durban, East London, Mossel Bay, Port Elizabeth, Richards Bay and Saldanha, and is developing the port at Ngqura.
South African Port Operations*	Port and cargo operator in all the major ports of South Africa.
Metrorail*	Operates commuter rail transport in most of the major cities in South Africa.
Petronet*	Owns and operates an extensive high pressure fuel pipeline network through which petroleum products and gas are transported.

** A division of Transnet Limited*

Other significant divisions

freightdynamics	Freight road transport
Propnet	Property management
Transtel	Operator of Transnet's private telecommunications network
Transwerk	Supplier and refurbisher of railway wagon and rolling stock

Other significant subsidiaries

Autopax (Pty) Limited	Passenger road transport
Protekon (Pty) Limited	Construction and project management
South African Express Airways (Pty) Limited	Regional passenger airline
Viamax (Pty) Limited	Logistics and fleet management

Refer to Annexure C for a detailed list of subsidiaries and shareholding therein.

Associate companies

Refer to Annexure C for a detailed list of associate companies.

GROUP FINANCIAL PERFORMANCE

The financial results of the Group are set out on pages 51 to 124. The analysis of the Group consolidated results for the year ended 31 March 2004 are contained in the Group Chief Executive's report set out on pages 14 to 18.

BOARD OF DIRECTORS

The current composition of the Board of Directors is detailed on pages 123 and 124.

During the year under review and up to the date of this report, the following changes occurred:

Resignations		Appointments	
Name	Date resigned	Name	Date appointed
ME Mkwanazi	31 March 2004	Prof GS Andrews	4 September 2003
MM Gantsho	24 August 2003	Lord SK Bhattacharyya	4 September 2003
		J Molobela	4 September 2003
		Ms M Ramos	4 September 2003

GOING CONCERN

After making all necessary enquiries, the Directors have no reason to believe that the company will not be a going concern in the twelve month period from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements. In its evaluation, the Board has taken the following factors into account:

- the Group continues to negotiate its funding facilities with lenders. As mentioned under the heading Loan Covenants, at balance sheet date Transnet was exposed to a restrictive financial covenant. The Board believes that this potential exposure has been mitigated and therefore should not have an adverse impact on the Group's ability to secure adequate funding facilities to meet its future obligations;

- the Board has also considered all significant variables that may impact the Group's cash requirements and is of the opinion that adequate funding is available;

- the operational and financial risks of the business have been significantly reduced. The closure of the SAA hedge book and the review of its fleet plan has significantly reduced the risks to the Group emanating from this major subsidiary; the deferral of the funding of the Transnet Second Defined Pension Fund liability will alleviate the funding burden on existing facilities; and

- Transnet has developed a new strategy focusing on its core businesses of rail, ports and pipeline operations. As part of this strategy to restructure its balance sheet, Transnet will exit underperforming businesses and non-core assets as soon as practically possible.

Loan covenants

As at 30 September 2003 and 31 March 2004, Transnet was potentially exposed to a restrictive finance covenant requiring that, at all times, Transnet maintain a minimum consolidated tangible net worth. In order to avoid any potential exposure, Transnet committed to make a voluntary prepayment of that loan facility.

Transnet is a party to a funding agreement which contains a covenant that makes it an event of default if, in the reasonable opinion of such funder, there is a material adverse change in the financial condition or business of Transnet.

Two major subsidiaries of the company, namely South African Airways (Pty) Limited (SAA) and South African Express Airways (Pty) Limited, were in breach of loan covenants with some of their lenders. Transnet has undertaken to provide guarantees to the affected lenders of South African Express Airways (Pty) Limited. The breach of loan covenants by SAA relates to the fact that SAA was technically insolvent at the balance sheet date. The proposed recapitalisation of SAA discussed below will effectively restore SAA to technical solvency and remedy this breach.

South African Airways (Pty) Limited (SAA)

It has become apparent that measures taken to support SAA during the year were not adequate. The derivative hedge losses continued to erode the net equity of the company to the extent that the capital base had become inadequate for the size and operations of SAA.

During the year, the Board approved a recapitalisation of R6 089 million of SAA. SAA employed the additional capital to close the derivative hedge book and improve its working capital base. The hedge book was closed at a total cost of R5 958 million by 30 June 2004.

At 31 March 2004, the liabilities of SAA exceeded its assets by R2 615 million resulting in technical insolvency. The negative equity was mainly due to the provision for impairment on the new aircraft fleet.

The Board has resolved to restore SAA to technical solvency and to provide it with adequate funds to meet its financial obligations and working capital requirements. To honour this commitment, the Board has agreed to convert the term loan of R4 000 million advanced to SAA subsequent to year-end into a compulsory convertible subordinated loan. The loan will convert to R4 000 million ordinary share capital at the conversion date. In addition, a credit facility not exceeding R1 500 million has been made available to SAA to meet its working capital requirements.

The Board believes that the actions above and the closure of the SAA hedge book will not only restore SAA to technical solvency, but will leave the company a going concern and a strong player in the global aviation industry.

SIGNIFICANT ACCOUNTING ISSUES

AC133 Financial Instrument: Recognition and Measurement: Overview

The Group fully adopted the South African Statement of Generally Accepted Accounting Practice AC133: Financial Instruments: Recognition and Measurement with effect from 1 April 2003. Previously the Group adopted this statement only in so far as stand alone derivatives were concerned.

The statement introduces the concept of fair value accounting to certain classes of financial assets and liabilities such as accounts receivables, derivative instruments and investments in debt and equity securities. Furthermore, the statement requires that defined financial instruments should be recorded in the financial statements from the effective date at fair value.

The statement has also introduced the concept of impairment of financial instruments, which in the past were carried in the financial statements at historic cost. The impairment in terms of AC133 replaces the traditional practice of determining specific and general provisions on assets.

To the extent that fair value varies in concert with interest rates and exchange rates, the adoption of AC133 has introduced an element of volatility in the income statement.

In prior years, the provision for doubtful debts was determined by taking into account the risk and payment profile of each debtor. In certain cases, a portfolio provision on the total value of the debtors book was determined based on a formula agreed by the Board.

As a result of the adoption of AC133, portfolio impairments are determined for loans that are not specifically impaired based on a discounted cash flow method, taking into account historical losses through default, probability of default and the overall quality of the debtors book and advances.

The change in the method of calculating the provision for doubtful debts to comply with AC133 has resulted in a significantly higher provision than raised previously.

Customer service contracts

Through Spoornet and South African Port Operations, Transnet has entered into service contracts with two major customers to handle and transport iron ore products by rail. The contracts came into effect on 1 January 2002 and 1 July 2002 and have a contractual term of twenty five years and five years respectively, terminating on 31 December 2027 and 30 June 2007 respectively. Together, the agreements specify a minimum annual tonnage of 22 million tonnes and a maximum annual tonnage of 29,5 million tonnes.

Both contracts stipulate that the rail tariff charged by Transnet will be based on the United States dollar iron ore price prevailing at the date of transport. As a result of the tariff structures in these agreements, Transnet is exposed to foreign currency risk and US dollar iron ore price risk.

Due to the tariff being linked to the US dollar iron ore price, the contracts constitute hybrid contracts under AC133, made up of a host tariff contract and an embedded derivative. Since the embedded derivatives are not considered to be closely related to the host contract, AC133 requires that the embedded derivatives be separated from the host contracts and measured at fair value, with changes in fair value reported in net profit or loss for the period.

The contracts also stipulate that the parties will notify each other of any event constituting a hardship and shall cooperate with regard to the alleviation of such hardship.

The recognised fair value of the embedded derivatives was determined by first calculating the fair value of the iron ore forward contracts based on the remaining contractual maturity of the contracts and then making an assessment of the embedded derivatives based on the expected impact of the hardship clause.

The Board, in finalising the value of the embedded derivative contained in one of the two service contracts and after taking all factors into account, is of the opinion that the terms of the existing contract will be successfully renegotiated for the mutual benefit of both parties. Under these circumstances, management's best estimate of the fair value of the embedded derivatives contained in the two contracts is a loss of R4 532 million. This has been recognised in the financial statements as an opening balance derivative liability at 1 April 2003 of R3 952 million and a closing balance at 31 March 2004 of R4 532 million.

Opening transitional adjustments

AC133 requires that adjustment pertaining to the adoption of the standard be applied prospectively. The adjustments relating to the period prior to 1 April 2003 have been accounted for as an adjustment to opening accumulated loss.

The effect of the adoption of AC133 on the opening shareholder's funds is analysed below:

	Accumulated loss	Total shareholder's funds
Debtors impairment	(133)	(133)
Revaluation of funding bonds	(194)	(194)
Amortised cost of current liabilities	1	1
Valuation of embedded derivatives	(3 964)	(3 964)
Total	**(4 290)**	**(4 290)**

Property, plant and equipment

Revaluation of assets

It is the Group's policy to revalue its pipeline networks and port infrastructure assets every five years. The revaluation is performed by an independent professionally qualified valuer. In the intervening years appropriate indices are used to update the valuation. The indices take into account changes in economic variables that affect the value of the assets. The variables include changes in rates of exchange, technology and other factors.

Pipeline networks

The Group's policy is to perform a revaluation of its pipeline networks every five years and an internal index revaluation in the intervening years. The last external revaluation was performed in the financial year ended 31 March 2001, by Arthur D Little International Inc, an independent firm of professional valuers. An internal revaluation was performed in the current year using indices relevant to the pipeline industry.

This revaluation resulted in a net increase of R135 million to the carrying value of the Group's pipeline networks. The carrying value of the Group's pipeline networks has been adjusted accordingly.

Port facilities and fleet craft

The revaluation in this regard was performed by SAFX Marine Services, a firm of independent, professionally qualified valuers using the modern equivalent asset method (MEA), in the previous financial year. This method estimates the cost of replacing the assets with a modern equivalent asset capable of performing the same functional operations adjusted for the remaining economic life of the asset.

The property, plant and equipment owned by South African Port Operations, was valued during the previous financial year by a firm of independent professional valuers. The valuation methodologies employed in the valuation were MEA which was used for obtaining fair market values for non-specialised assets and the depreciated replacement cost which was used for specialised assets where market values were not easily obtainable.

The net increase in the carrying value of the Group's port facilities and fleet craft as a result of applying internal valuation indices for the current year was R245 million.

Capital commitments

The Group has a significant capital expenditure plan. The capital expenditure commitments for the next five years amount to R30 billion (2003: R29 billion). These commitments include the following projects:

- refurbishment and acquisition of additional locomotives and wagons;
- construction of the port of Ngqura;
- expansion of port terminals; and
- acquisition of port plant and equipment.

Review of impairment of assets

In accordance with the requirements of the South African Statement of Generally Accepted Accounting Practice AC128: Impairment of assets, the directors confirm that they have reviewed the carrying value of investments, and property, plant and equipment. The review entailed the comparison of the carrying value of the assets against their value in use or, where relevant, the estimated market value.

In the current year, the Group's impairment provision against property, plant and equipment amounted to R4 027 million (2003: R493 million) and was recognised in the income statement. Included in this amount is R3 288 million (2003: R60 million) relating to the impairment of aircraft at SAA. The aircraft were impaired to their estimated selling prices (which were higher than their value in use based on the aircraft's expected future cash flows discounted at a pre-tax discount rate of 27,5%). The estimated selling prices were determined by reference to a formal external valuation of the aircraft, adjusted for the expected cost of selling the aircraft, unless they were subject to an existing sale agreement.

The pre-delivery payments on the Airbus A320-200 order were fully impaired to reflect the consequences of the decision not to proceed with this order at the current time. Negotiations will be held with Airbus in order to either recover the pre-delivery payments or to switch them to some other aircraft orders. However, as these negotiations will be based on good faith rather than contractual rights, the Directors are of the view that the recovery is in the nature of a contingent asset and have accordingly impaired the pre-delivery payments in full.

The pre-delivery payments in respect of 5 Airbus A340-300e aircraft are expected to be recovered by SAA as a consequence of these aircraft being leased with the lessor refunding to SAA the pre-delivery payment paid by SAA. Consequently the pre-delivery payments have been impaired to the present value of the expected future cash flows in compliance with SAA's accounting policy in this regard.

SAA has taken delivery of an Airbus A340-300e under bridging finance. It is the intention of SAA to complete the permanent financing of this aircraft by entering into an operating lease arrangement. The carrying value of the aircraft has accordingly been classified as a receivable and impaired to the present value of the amount to be received from the lessor.

Second network operator (SNO)
The Group, through its division Transtel, is earmarked to be a 15% shareholder in the SNO company. As a result the Group has made a significant financial investment in plant and equipment in readiness for the launch of the SNO. However, the delays to the issue of the SNO licence is a source of concern.

The Board has reviewed the value of the investment in the SNO in accordance with the requirements of AC128 and the future strategy of Transnet. While all the technical reports presented to the Board have indicated that the technology of the installed equipment will probably remain current for the next three years, the Board is concerned about the uncertainty and the financial implications of the delay in the issue of the licence. Although the financial quantification of the delay is difficult, the Board believes that it is prudent to create an impairment provision for the assets to the amount of R526 million, which impairs the assets to their net realisable value of R103 million.

Significant impairment provisions at company level
At company level, the cost of the investment in South African Airways amounting to R8 815 million was fully impaired. The impairment provision was determined with reference to a valuation of SAA performed by a reputable international investment bank.

Post-retirement obligations
The Group operates a number of defined benefit and contribution pension funds for the benefit of its existing and former employees. The funds are managed by independent asset managers and the administration is performed by a separate division of Transnet.

Transnet Second Defined Benefit Fund (Pensioners' Fund)
This is a closed fund which was established on 1 November 2000 for the benefit of retired and qualifying beneficiaries and no new members have been accepted since the inception of the fund. The fund was last actuarially valued on 31 March 2004, based on the projected unit method. The actuarial valuation revealed a deficit of R3 439 million (2003: R5 283 million). The liability provided in the financial statements is R5 127 million (2003: R4 535 million). The deficit is funded by the company in terms of the rules of the fund.

The unrecognised actuarial gain for the year is R1 688 million (2003: loss of R748 million) which is dealt with in terms of the South African Statements of Generally Accepted Accounting Practice AC116: Employee Benefits.

Post-retirement medical benefits
The Group provides medical aid benefits to its former and current employees. The annual provision for the post-retirement medical liability is recognised in the income statement over the expected remaining working lives of the employees. The liability was last actuarially valued at 31 March 2004, using the projected unit method.

The total post-retirement medical aid liability for the Group is R2 114 million (2003: R2 305 million) and has been recognised in the annual financial statements. The make-up of this figure is as follows:
- Pensioners (SATS) R1 369 million (2003: R1 580 million)
- Transnet employees R745 million (2003: R725 million)

The liability for pensioners was actuarially valued at R1 751 million (2003: R1 715 million) and the liability for Transnet employees at R741 million (2003: R545 million). The liabilities were accounted for in terms of the South African Statements of Generally Accepted Accounting Practice AC116: Employee Benefits. The annual provision for these benefits was recognised in the annual financial statements in accordance with the accounting statement mentioned above. The provisions for the current year, which are recognised in the income statement, are as follows:

- Pensioners R175 million (2003: gain of R1 143 million)
- Transnet employees R58 million (2003: R65 million)

RESTRUCTURING ACTIVITIES
The role of Transnet is to contribute to the sustainable economic and social development of the South African economy by providing an efficient transport network focused on rail and ports. The Transnet strategy is to provide an efficient integrated freight transport service to key sectors of the economy. In taking this strategy forward, a four point turnaround plan has been adopted that:
- clarifies and realigns the direction of the business for improved focus, cost and positioning;
- restructures the balance sheet to improve financial capability and enable infrastructure investment;

- improves corporate governance throughout the organisation; and
- re-establishes sound risk management philosophies, principles and policies.

The highlights of the significant restructuring activities during the year are discussed below.

National Ports Authority Bill
The bill is currently under review by government.

Freightdynamics
The Transnet Board has taken a decision to dispose of this division. Freightdynamics runs freight delivery trucks throughout the Southern African region.

Shosholoza Meyl and Metrorail
Subsequent to the end of the financial year, the government announced that Shosholoza Meyl (a business unit of Spoornet) and Metrorail, inter-city and urban rail commuter service operators respectively, will be merged with the South African Rail Commuter Corporation. The merged entity will operate under the Department of Transport. The book value of net assets involved at 31 March 2004 is as follows:

- Shosholoza Meyl R182 million
- Metrorail R20 million

Transnet housing
During the year the Board approved the disposal of the Transnet housing mortgage loan book. In line with this decision, two bidders have since been short-listed, and it is hoped that the disposal will be implemented during the next financial year. The book value of the mortgage loan book at 31 March 2004 is R3 429 million.

Autopax (Pty) Limited and Marine Data Systems (Pty) Limited
Subsequent to year-end, the Board took a decision to dispose of Autopax and Marine Data Systems, both subsidiaries of Transnet.

DISPOSAL OF INVESTMENTS
FleetCall (Pty) Limited
The proposed sale of this business to Ingwetele Communications (Pty) Limited reported in the last annual report was cancelled because the buyer defaulted on payment of the purchase consideration.

The business was subsequently sold in December 2003 to a management consortium led by Nsele Trading (Pty) Limited.

SHARE CAPITAL
There were no changes in either the company's issued or authorised share capital during the year.

Full details of the company's authorised share capital and the number of shares in issue are set out in note 18 to the annual financial statements.

SHAREHOLDER'S RESOLUTIONS
No resolutions were passed during the year, which had a material impact on Transnet's Memorandum and Articles of Association.

SUBSIDIARIES AND ASSOCIATES
Details of the Group's shareholding in its subsidiaries, and its associates and the details of all inter-Group loans are reflected in Annexure B. The Group structure is set out on page 8 of the annual report.

DIVIDEND
No dividend was declared or paid during the year.

PUBLIC FINANCE MANAGEMENT ACT (PFMA)
Transnet Limited has implemented governance structures and processes in conformance with the provisions of the PFMA.

PFMA compliance is one of the key business issues that the Group manages and monitors. Group internal audit has integrated compliance with PFMA provisions as a standard in its audit programmes and reports its findings to the Audit Committee. In addition, external audit also performs an PFMA checklist review at year-end, which is also reported to the Audit Committee.

Non-compliance with the PFMA is viewed very seriously by the Board and is dealt with in terms of the Group's disciplinary code and processes.

Sections 51 and 55 of the Public Finance Management Act imposes certain obligations on the company. These obligations relate to the prevention, identification and reporting of all fruitless and wasteful expenditure, irrespective of quantum, and the collection of all revenue.

Transnet does not fully comply with all of the requirements of the PFMA.

A comprehensive report covering all elements of fruitless, wasteful and irregular expenditure, together with other contraventions of the PFMA will be prepared for submission to the Minister of Public Enterprises. For reporting purposes Transnet has assumed a materiality of R20 million.

The Board reports that Transnet has contravened the regulatory compliance procedures of the Commercial Paper Regulations (published under the Banks Act, 1990 (Act No 94 of 1990) in Government Notice No 2172, Government Gazette No 16167 dated 14 December 1994) by issuing commercial paper without the requisite prospectus and audit report. Control structures have been put in place, as outlined in the corporate governance report, that will ensure that correct procedures are implemented and adhered to in the future.

SHAREHOLDER COMPACT

In pursuance of its objective to promote good corporate governance in state-owned enterprises, the government as sole shareholder and Transnet signed a Shareholder Performance Agreement (shareholder compact) in July 2001. The Board is presently discussing the renewal of this agreement with the shareholder.

The shareholder compact provides an effective framework for regulating the relationship between Transnet and the government as the sole shareholder. In the shareholder compact the shareholder has unambiguously communicated the performance targets expected of Transnet.

The compact clarifies the relationship between the shareholder, the Board of Directors and management. The role and responsibilities of the shareholder, the Board and management are defined by spelling out actions that require shareholder approval and powers that the shareholder has delegated to the Board.

The overarching theme of the compact is transparency, accountability, sound management and exercise of power within a delegated authority framework.

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

Introduction

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

Group structure

The Group's structure is set out on page 8 of the annual report.

SIGNIFICANT EVENTS NOTIFIED TO THE EXECUTIVE AUTHORITY

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

Treasury coupon stock

Issue of coupon stock has been stopped until measures are in place to fully comply with the Commercial Paper Regulations.

SAA operational and financial performance

The Executive Authority was appraised of all pertinent matters pertaining to SAA and the significant losses that it posted in the current financial year, in particular the impairment of aircraft and the hedging losses.

Customer service contracts

The executive authority was notified of contracts containing embedded derivatives and their financial impact on Transnet.

Judicial proceedings

During the year under review, there were numerous judicial proceedings entered into with Transnet either as the plaintiff or the defendant. Where the outcome can be assessed with reasonable certainty, the financial statements include a best estimate of the expected settlement for those judicial proceedings. Where the outcome is not certain and the case could have a material impact on the Group's financial results, the details of the cases have been set out in note 28 dealing with the Group's contingent liabilities.

Protocol for communication with stakeholder

The Group continues to report to the Department of Public Enterprises. The Minister responsible for the Group is Minister A Erwin.

POST-BALANCE SHEET EVENTS

The following matters arose between 31 March 2004 and 20 August 2004.

Virtual care

Subsequent to year-end, Transnet restructured its business unit comprising pharmacies which it operates under the name of Virtual Care Pharmacies. This business unit was sold to a consortium comprising management in June 2004 with the effective date of sale being 30 August 2003.

Marine Data Systems (Pty) Limited

This company was liquidated subsequent to year-end.

SAA

Hedge book

The SAA derivative hedge book was fully settled by 30 June 2004 at a total cost of R5 958 million. The value of these derivative hedge instruments at 31 March 2004 was R5 934 million.

Other

Refer to page 39 for further post balance sheet events relating to SAA.

REMUNERATION REPORT

The Human Resources and Remuneration Committee, which consists entirely of non-executive directors, is responsible for determining and implementing the Group's policy on the remuneration of Group executives and senior executives. The committee is composed of individuals with the requisite skills commensurate with the committee's objectives and scope of activity. The committee is free to take independent outside professional advice as and when necessary.

The committee's principle responsibilities and objectives are to:

- make recommendations to the Board, within agreed terms of reference, on the Group's framework of executive remuneration and its cost; and to determine on their behalf specific remuneration packages for Group executive directors and Group executives;
- ensure that Group executives and members of senior executive management are appropriately and fairly remunerated and incentivised for their contribution to the Group's performance;
- attract and retain qualified and experienced management and executives necessary to meet the Group's objectives and safeguard shareholder interests;
- ensure that market competitive reward strategies and programmes are in place; and
- administer and establish performance targets.

GROUP EXECUTIVES

Remuneration comparison

In the prior year, the remuneration of the Group Chief Executive and Group executives was compared with market information to assess the comparability of their package to the market. Based on this information, a remuneration mandate was approved by the Human Resources and Remuneration Committee.

Guaranteed remuneration

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

Performance incentive bonus scheme

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

Share options

The executive directors of the Group do not participate in any share incentive schemes, except for the executive directors of South African Airways (Pty) Limited and one other director of Viamax (Pty) Limited.

Service contracts

Group Chief Executive

The Group Chief Executive is on a three-year contract which expires on 31 October 2006. The contractual conditions of her service include a notice period of four months and a restraint of trade of two years from the date of termination of service. The Group Chief Executive, on termination of service under any circumstances (with the exception of a breach of fiduciary duties), is entitled to a termination benefit equivalent to a year's guaranteed remuneration. The following additional benefits are also applicable:

- Performance bonus – 25% of guaranteed remuneration as at date of appointment and based on the company achieving operational targets.
- Medical aid scheme benefits.
- Travel concessions.

Other Group executives

The following Group executives were appointed during the current financial year:

Name	Date of appointment
• K Phihlela	1 July 2003
• B Nomvete	1 August 2003

With the exception of the Group Chief Financial Officer, the Group executives are on a five-year fixed-term contract of employment and are on a notice period of three months. The applicable restraint of trade is one year, the payment for which is limited to the aggregate sum of the annual remuneration package at the last date of service. The Group executives, on termination of service under any circumstances (with the exception of a breach of fiduciary duties), are entitled to a termination benefit equivalent to the residual portion of the fixed-term contract.

To compensate the Group executives for this structure in their contracts, the company has granted an additional 25% guaranteed remuneration, subject to the achievement of budgeted targets and the performance of the company. The Group Chief Financial Officer and Group executives are allowed to participate in the following company benefits:

- Transnet Retirement Fund
- Medical Aid Scheme
- Travel concessions

Company

Executive guaranteed remuneration

Name	Salary R'000	Retirement fund contributions R'000	Other contributions R'000	Termination benefits paid R'000	Other payments R'000	**2004 R'000**	2003 R'000
ME Mkwanazi	3 007	1 303	31	–	44	**4 385**	3 621
MD Ramos*	943	54	17	–	–	**1 014**	
SN Mabaso	1 580	101	32	–	–	**1 713**	1 458
CR Jardine	–	–	–	–	–	**–**	710
SS Ntsaluba	–	–	–	–	–	**–**	114
B Nomvete*†	766	45	23	–	–	**834**	–
K Phihlela*†	733	36	27	–	–	**796**	–
BL Sibiya	–	–	–	–	–	**–**	2 617
LRR Molotsane†	1 464	83	37	–	–	**1 584**	228
N Danana†	1 109	90	28	–	–	**1 227**	172
NV Phiyega†	1 459	68	60	–	–	**1 587**	91
Total	**11 061**	**1 780**	**255**	**–**	**44**	**13 140**	**9 011**

** Proportion to time spent in that position.*

† Group executives who are not members of the Board of Directors.

Performance bonus

Name	**2004**	2003
ME Mkwanazi	**1 661**	1 381
SN Mabaso	**934**	321
CR Jardine	**–**	781
Total	**2 595**	2 483

Note:

1. The bonuses paid relate to the previous financial year, that is, payments made in the current financial year relate to the financial year ended 31 March 2003.

2. The performance bonuses for the year ended 31 March 2004 will only be finalised after the approval of the audited annual financial statements.

INDEPENDENT DIRECTORS

Appointment and remuneration

Independent directors are appointed at the annual general meeting of the shareholder. The fees paid to independent directors vary based on their attendance at and their appointments to the various committees and divisional Boards of the Transnet Board.

Company

Name	Fees R'000	Termination R'000	Other payments R'000	**2004 R'000**	2003 R'000
F Abrahams	205	–	1	**206**	238
SN Buthelezi	239	–	2	**241**	197
MM Gantsho	–	–	–	**–**	342
N Gomomo	370	–	4	**374**	384
BA Khumalo	850	–	–	**850**	850
AMSS Mokgabudi	159	–	–	**159**	96
Y Muthien	157	–	1	**158**	173
HN Ndude	186	–	5	**191**	236
M Ramano	135	–	–	**135**	110
JH Rowlands	366	–	2	**368**	267
PA Thompson	134	–	–	**134**	97
FP Lembede	155	–	–	**155**	147
GS Andrews	12	–	–	**12**	–
Lord SK Bhattacharyya	38	–	–	**38**	–
J Molobela	29	–	–	**29**	–
Total	3 035	–	15	**3 050**	3 137

Subsidiary directors' remuneration

Executive directors

Name	Salary R'000	Retire-ment fund contri-butions R'000	Perform-ance incentive bonus R'000	Other R'000	Gain on share options R'000	**2004 R'000**	2003 R'000
SAA (Pty) Limited							
AN Viljoen***	2 160	–	975	160	650	**3 945**	6 320
R Forson	877	–	–	205	550	**1 632**	4 789
SAA City Centre (Pty) Limited							
M Stoltzing	816	–	467	335	–	**1 618**	750
SAA Technical (Pty) Limited							
L Olitzki	654	–	174	300	110	**1 238**	842
V Raseroka	–	–	–	–	–	**–**	8 776
R Ramkissoon*	493	–	–	57	–	**550**	–
Airchefs (Pty) Limited							
B Fischer	946	–	145	–	–	**1 091**	–
Apron Services (Pty) Limited**							
TG Segoneco	–	–	–	–	–	**–**	1 285
B2B Africa (Pty) Limited							
NN Shikwane	1 301	53	–	34	–	**1 388**	1 291
Viamax (Pty) Limited							
N Hariparsad	707	111	490	490	860	**2 658**	768
Autopax (Pty) Limited							
MC Bester	905	71	–	46	–	**1 022**	1 035
Marine Data Systems (Pty) Limited							
PGH Wintebach	647	39	147	1 605	–	**2 438**	894
A van Berg	543	–	–	443	–	**986**	543
Capt KH Burchell	501	–	–	146	–	**647**	543
SA Express (Pty) Limited							
BPB Dibate*	106	7	–	15	–	**128**	331
Total	**10 656**	**281**	**2 398**	**3 836**	**2 170**	**19 341**	**28 167**

* *Proportion to time spent in that position.*

** *Associate with effect from 1 March 2003.*

*** *Mr AN Viljoen tendered his resignation with effect from 1 September 2004. The Board has approved a termination package of approximately R3,6 million.*

Independent directors

Name	Fees R'000	Retirement fund contributions R'000	Fringe benefits R'000	Other R'000	2004 R'000	2003 R'000
SAA (Pty) Limited						
D Ncube	514	–	37	137	**688**	725
Dr D Konar	21	–	–	56	**77**	367
AMSS Mokgabudi	167	–	–	–	**167**	–
AP Nkuna	150	–	–	–	**150**	–
MTK Moerane	150	–	–	–	**150**	–
R Doganis	261	–	–	–	**261**	–
CC Okeahalam	150	–	–	–	**150**	–
Autopax (Pty) Limited						
F Lembede	–	–	–	–	**–**	–
B2B Africa (Pty) Limited						
Prof F Abrahams	41	–	–	–	**41**	30
Dr CR Jardine	71	–	–	–	**71**	19
JH Rowlands	48	–	–	–	**48**	20
Protekon (Pty) Limited						
M Mohohlo	5	–	–	23	**28**	57
Total	**1 578**	**–**	**37**	**216**	**1 831**	**1 218**

Accounting policies

BASIS OF PREPARATION

The annual financial statements are prepared on the historical cost basis, except as modified by:

- The revaluation of pipeline networks and port facilities;
- The measurement at fair value of derivative and held for trading financial instruments, and available-for-sale financial assets; and
- The measurement at fair value of investment properties.

The principal accounting policies adopted and applied, which are set out below, conform to South African Statements of Generally Accepted Accounting Practice. These policies are consistent, in all material respects, with those applied in the previous year, with the exception of the full adoption of South African Statement of Generally Accepted Accounting Practice AC133 – Financial Instruments: Recognition and Measurement.

The Group has adopted the South African rand as its reporting currency. Notwithstanding the South African reporting currency, the Group measures separately the transactions of each material operation using the particular currency of the primary economic environment in which the operation conducts its business.

BASIS OF CONSOLIDATION

A subsidiary is an entity (including special purpose entities) in which the Group controls the composition of its Board of directors, or has the power to govern the financial and operating policies of the entity in terms of an agreement. Typically this will be where the Group holds more than 50% of the voting power.

The consolidated financial statements include the results of the Company and its subsidiaries from dates of acquisition. The results of any subsidiaries acquired or disposed of during the year are included from the date effective control was acquired, up to the date effective control ceased. On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of the minority shareholders is stated at the minority's proportion of the fair value of the assets and liabilities recognised.

All significant inter-company transactions and balances are eliminated on consolidation.

JOINT VENTURES

A joint venture is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other venturers under a contractual arrangement. The Group's interest in a jointly controlled entity is accounted for by proportionate consolidation in the Group accounts from the date of acquisition until the date of disposal.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

INVESTMENTS IN ASSOCIATES

An associate is an enterprise over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. Investments in associates are equity accounted in the consolidated financial statements for the period in which the Group exercises significant influence. Significant influence is typically assumed in instances where the Group has an equity stake greater than 20% but less than 50% in a company. Equity accounted income represents the Group's proportionate share of the profits of these companies and the share of taxation thereon, net of the Group's proportionate share of material inter-Group profits. Losses incurred by associates (including impairment losses where such indications exist), are brought to account in the consolidated financial statements until the investments in such associates are written down to a nominal value. Thereafter, losses are accounted for only insofar as the Group is committed to providing financial support to such associates.

The Group's interest in an associate is carried in the balance sheet at an amount that reflects its share of the net asset value of the associate less any impairment loss.

Where a Group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

INTANGIBLE ASSETS

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition of the Group's interests in subsidiaries, associates or jointly controlled entities over the fair value of the identifiable assets and liabilities at dates of acquisition.

Goodwill is recognised as an asset and amortised on a straight-line basis over its estimated useful life, which is assessed on an annual basis, but does not exceed a period of 10 years. The unamortised balance is reviewed on a regular basis and, if impairment in the value has occurred, it is written down to the recoverable amount during the period in which the circumstances are identified. Goodwill is stated at cost less accumulated amortisation and any impairment in value.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately on the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition of the Group's interests in subsidiaries, associates or jointly controlled entities.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that negative goodwill relates to the expectation of future losses and expenses on the date of acquisition, that portion is recognised as income when the future losses and expenses are incurred. Any remaining negative goodwill not exceeding the identifiable non-monetary assets acquired is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. The amount of negative goodwill exceeding the fair value of identifiable non-monetary assets and not related to future losses and expenses is recognised immediately as income.

Software and licences

Software and licences are carried at cost less accumulated depreciation and any impairment in value. Internally developed and packaged software and the direct costs associated with the development and installation thereof are capitalised and recognised as intangible assets. Software is amortised in full on a straight-line basis over three years from the date of being commissioned.

Costs relating to the acquisition of licences are capitalised and amortised on a straight-line basis over three years or its useful life, whichever is shorter.

RESEARCH AND DEVELOPMENT

Research costs are charged against operating income as incurred. Development costs are also charged against operating income as incurred, except where:

- the development is evaluated as being technically or commercially feasible;
- the Group has sufficient resources to complete development; and
- the Group can demonstrate how the development will generate future economic benefits; in which event the development costs are capitalised. Capitalised development costs are amortised over the estimated useful lives of the assets or the projects, not exceeding 20 years.

PROPERTY, PLANT AND EQUIPMENT

Land and assets under construction are stated at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

All other items of property, plant and equipment are stated at cost or revalued amounts, less accumulated depreciation and any impairment losses.

Property, plant and equipment in the categories of port facilities and pipeline networks are revalued annually. These assets are independently valued every fifth year, with valuations in the intervening years being performed by the application of appropriate indices. Revaluation surpluses that arise are taken directly to the revaluation reserve except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of an asset is charged as an expense to the extent that it exceeds the balance, if any, held in the asset's revaluation reserve relating to a previous revaluation of that asset.

On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus in the revaluation reserve is transferred to accumulated profits.

Major improvements to property, plant and equipment are capitalised. Repairs and maintenance are expensed as and when incurred. Minor items of purchased property, plant and equipment are also recognised in the income statement as incurred.

Exchangeable units such as aircraft engines are classified as property, plant and equipment. Costs of repairing and exchanging such units are recognised in the income statement as incurred. Exchangeable units are held at cost less accumulated depreciation and any required impairment in value.

Depreciation

Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Land, commercial land and assets in the course of construction are not depreciated. All other property, plant and equipment, including capitalised leased assets, are depreciated on a straight-line basis over their estimated useful lives at the following rates:

Rate per annum	%
Aircraft	4 – 6
Buildings and structures	2 – 5
Containers	5 – 10
Machinery, equipment and furniture	6,67 – 50
Motor vehicles	10 – 20
Permanent way and works	1,05 – 5
Pipeline networks	1,05 – 33,3
Port facilities	1,05 – 10
Rolling stock	2,5 – 3,33

Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine if there is any indication of impairment. If such an indication exists, the recoverable amount of the assets is estimated to determine the extent of the impairment loss (if any). Where it is not possible to determine the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. A previously recognised impairment loss will be 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 had no impairment loss been recognised. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The recoverable amount of an asset is the higher of the net realisable value and the value-in-use. Net realisable value is determined by ascertaining the current market value of an asset and deducting any costs relating to the realisation of the asset. In assessing the value-in-use, the expected future cash flows from the asset are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. For an asset whose cash flows are largely dependent on those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The pre-tax discount rate applied varies from business unit to business unit and takes into account the specific risks attributable to that business unit. In addition, certain business units apply a discount rate that is reduced below normally acceptable commercial returns. This is applicable where the business unit undertakes services in keeping with the government's socio-economic responsibilities for which a commercial return cannot be earned.

INVESTMENT PROPERTIES

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains and losses arising from changes in the fair value of investment property are included in net profit or loss for the period in which they arise.

LEASES

Finance leases are leases where the Group assumes substantially all the risks and rewards incident to the ownership of the underlying assets. Assets held under finance leases are recognised at their cash equivalent cost and the corresponding liabilities are raised. Leased assets are depreciated in accordance with the normal depreciation rates applicable to the class of asset into which the leased asset falls and are carried at cost less accumulated depreciation (plus any impairment in value). Lease payments are allocated between a reduction in the liability to the lessor and finance charges, using the effective interest rate method so as to achieve a constant rate of interest on the remaining balance.

Improvements in respect of leased premises are capitalised and amortised over the shorter of the remaining lease period or their economic lives.

Where a sale and lease back agreement is classified as a finance lease, any excess of the sale's proceeds over the carrying values is deferred and recognised in the income statement over the period of the lease.

Leases that are classified as operating leases are not capitalised. Payments made under operating leases are recognised in the income statement on a straight-line basis over the period of the lease.

Where a sale and lease back agreement is classified as an operating lease, any excess or deficit of the sale's proceeds over the carrying values of the assets sold is recognised in the income statement in the year in which it arises.

PRE-DELIVERY PAYMENTS AND OTHER AIRCRAFT DEPOSITS

Pre-delivery payments paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work in progress at the cost of the consideration delivered.

In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease then the related pre-delivery payments will be re-measured to the present value of the consideration expected to be received from the ultimate lessor.

Thus consideration will, if it is denominated in foreign currency be translated to the measurement currency by applying the exchange rate ruling at the reported date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration in the future operating lease payments forms part of the consideration receivable. Any loss arising on re-measurement is classified as an impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related pre-delivery payments and the final instalment paid to the manufacturers are again re-measured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable deposits.

FOREIGN CURRENCIES

Transactions and balances

Transactions in foreign currencies are accounted for at rates ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies are converted into South African currency at the rate of exchange ruling at the balance sheet date. In the case of aviation business units, the ruling rate for sales denominated in foreign currencies is taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month.

Non-monetary items originally denominated in foreign currencies are carried at the exchange rates ruling at the original transaction date, except where the underlying asset or liability is carried at fair value denominated in the foreign currency, in which case the asset or liability is translated into South African rand at the exchange rate ruling when the fair value was determined.

All gains or losses arising on translation are recognised in the income statement and are classified as finance costs.

In order to hedge its exposure to foreign exchange risks, the Group enters into forward contracts. The accounting treatment for these is detailed under "Financial Instruments" below.

Foreign entities

The financial statements of foreign entities are translated into South African rand as follows:

- Assets and liabilities at rates of exchange ruling at balance sheet date
- Income and expenditure at weighted average rates
- Goodwill and fair value adjustments arising on acquisition at rates of exchange ruling at balance sheet date

All resulting exchange differences are reflected as part of shareholders' equity. On disposal, such translation differences are recognised in the income statement as part of the cumulative gain or loss on disposal.

The financial statements of foreign entities that report in the currency of a hyper-inflationary economy are restated in terms of the measuring unit current at the balance sheet date before they are translated into the Group's reporting currency.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any costs of completion and disposal. Cost is determined on the weighted average cost method.

Raw materials and consumable stores are stated at weighted average cost.

Manufactured goods and work in progress are valued at raw material cost, plus direct labour cost, and an appropriate portion of related manufacturing overhead cost, based on normal capacity.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

TAXATION

Deferred tax

Deferred taxation is provided using a balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill (or negative goodwill), which is not deductible for taxation purposes, or from the initial recognition of assets or liabilities (other than in a business combination), which affect neither accounting nor taxable profit or loss.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available to be utilised against the associated unused tax losses and deductible temporary differences.

Deferred taxation is calculated using taxation rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Current tax

The charge for current tax is the amount of income taxes payable in respect of the taxable profit for the current period. It is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Secondary tax on companies (STC)

STC is provided in respect of the expected dividend payments net of dividends received or receivable and is recognised as a taxation charge in the year in which the dividend is declared.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when the Group has become party to the contractual provisions of the instruments.

Financial instruments recognised on the balance sheet include:

- Standalone derivative instruments
- Embedded derivatives
- The Company's investment in subsidiaries and associates
- Transnet bonds and other money market instruments
- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Investments
- Borrowings

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

Investments

After initial recognition, investments, which include the Company's listed investments in associates and subsidiaries and the Group's market making portfolios in both bonds and money market instruments, which are classified as held for trading, and available-for-sale, are measured at fair value. Fair value is the market value (listed investments) or either the market price of a substantially similar investment or expected future cash flows of the net asset base (unlisted investments). Gains or losses on investments held for trading are recognised in the income statement. Gains or losses on available-for-sale investments are recognised as a separate component of the Company's equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement. The gains or losses arising from the application of the above policy, in respect of associates and subsidiaries, are reversed at a Group level where normal consolidation and equity accounting principles apply.

The Company's investments in unlisted associates and subsidiaries are carried at cost less a provision for impairment.

Other long-term investments that are intended to be held to maturity are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

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

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, all of which are available for use by the Group unless otherwise stated.

Trade and other receivables

Trade and other receivables, which generally have 30 to 90 day terms, are recognised and carried at the original invoiced amount less an allowance for any uncollectible amounts.

Financial liabilities

After initial recognition, financial liabilities other than trading liabilities and derivatives are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Financial liabilities held for trading purposes and derivative liabilities are measured at fair value and the resultant gains and losses are included in the income statement.

Trade and other payables

Liabilities for trade and other amounts payable which are normally settled on 30 to 90 day terms are carried at cost.

Derivative instruments

The Group uses derivative financial instruments which include forward exchange and currency option contracts, cross-currency and interest rate swaps, interest rate options and jet fuel derivatives. The Group analyses its portfolio of derivative financial instruments based on the existence and designation of economic hedging relationships as follows:

- Fair value hedges, which hedge the Group's exposure to changes in the fair value of the underlying assets or liabilities recognised on the Group's balance sheet;
- Cash flow hedges, which hedge the Group's exposure to the variability of future cash flows occasioned by movements in exchange rates, interest rates and the price of jet fuel, where the underlying exposure has not been recognised as either an asset or a liability on the balance sheet, or as an item of income or expense in the income statement; and
- Other derivatives held.

Cash flow hedges are only classified as cash flow hedges where the circumstances of the hedges meet the criteria for hedge accounting as contained in the South African Accounting Statement AC133 – Financial Instruments: Recognition and Measurement.

Where derivatives do not meet these criteria, they are classified as "other derivatives held" even though there may be an economic hedging relationship between the derivatives and the Group's current or future exposures.

All derivative financial instruments are measured at fair value by marking the instruments to market at the financial year-end.

The gains or losses arising in respect of the derivative financial instruments in the categories of fair value hedges and other derivatives held are recognised immediately in the income statement.

The gains or losses arising in respect of the derivative financial instruments relating to future cash flow hedges are recognised directly in equity until the underlying exposure/transaction occurs, or until the future transaction is no longer expected to occur. Any asset or liability ultimately resulting from the conclusion of a hedged transaction is recognised, at the initial measurement of the hedged item, incorporating the cumulative gain or loss on the hedge from inception of the hedge to the time of the recognition of the transaction. Where the initial recognition of the hedged transaction results in either a profit or a loss effect, the gain or loss from the hedge is recognised in the income statement in the same period that the underlying hedged transaction is recognised. Where the transaction is no longer expected to occur, the net cumulative gain or loss resulting from the hedge is recognised in the income statement.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

The Group does not speculate in the trading of derivative instruments.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or Group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets held at either cost or amortised cost - the carrying amount of the asset is reduced to its discounted estimated recoverable amount, either directly or through the use of an allowance account, and the resulting loss is recognised in the income statement for the period; and
- For financial assets at fair value - where a loss has been recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised in equity is transferred to the income statement for the period.

Offset
Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or settle on a net basis, all related financial effects are offset.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

PROVISIONS
Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of a past event, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

FREQUENT FLYER PROGRAMME
A subsidiary of the Group manages a travel incentive programme (Voyager) whereby frequent travellers accumulate mileage credits that entitle them to free travel. The airline accrues the estimated incremental cost of providing free travel awards. The accrued incremental cost is included in current liabilities.

EMPLOYEE BENEFITS
Pension benefits
The Group operates two defined benefit funds and a defined contribution fund. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the attained age method for the Transnet Defined Benefit Pension Fund and using the projected unit credit method for the Transnet Second Defined Benefit Fund. The benefit costs are recognised in the income statement. Actuarial gains or losses are recognised as income or expenses when the cumulative unrecognised actuarial gains or losses for each fund at the beginning of the year exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets at the beginning of the year. These gains and losses are recognised over the expected average remaining working lives of employees participating in the funds.

Past service cost is recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

The Group's contributions to the defined contribution fund are charged to the income statement during the year in which they relate.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Post-retirement medical benefit
Post-retirement medical benefits are provided by the Group to qualifying employees and pensioners. The benefit medical costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Actuarial gains or losses are recognised in the income statement when the cumulative unrecognised actuarial gains or losses at the beginning of the year exceed 10% of the present value of the obligation. Such gains or losses are recognised over the expected remaining working lives of the participating members.

Short and long-term benefits
The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

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

REVENUE
Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amounts of revenue can be reliably measured. Revenue is net of value-added taxation.

Transportation and other related services
Transportation and other related services are recognised by reference to the stage of completion of transactions at the balance sheet date.

Property services
Revenue arising from the rental of property is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Interest income
Interest is recognised on a time proportion basis that takes into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. All interest income is separately disclosed as part of other income in the income statement except for interest earned on the housing bond book, which is disclosed as part of turnover.

Dividend income
Dividends are recognised when the Group's right to receive payment is established and are included in other income, which is separately disclosed in the income statement.

BORROWING COSTS
Borrowing costs are recognised in the income statement in the period in which they are incurred.

GOVERNMENT GRANTS
Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all suspensive conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset on a straight-line basis.

SEGMENT REPORTING
The Group conducts business in all aspects of transport and maritime operations, as well as related services. On the primary segment basis, the main business Groupings of the Group are rail, maritime, pipeline, aviation, road and property.

On the secondary segment basis, which is the reporting format by geographic analysis, the directors consider that there is only one material geographic segment, being the Republic of South Africa, with the exception of the aviation portfolio. Therefore it is not considered necessary to disclose secondary segments.

COMPARATIVES
Where necessary, the comparative figures have been adjusted to conform with changes in presentation in the current year.

Income statements

for the year ended 31 March 2004

Company 2003 R million	Company 2004 R million		Notes	Group 2004 R million	Group 2003 R million
22 099	**25 744**	**Turnover**	1	**43 637**	41 278
(18 676)	**(30 210)**	Net operating expenses	2	**(43 450)**	(36 190)
3 423	**(4 466)**	(Loss)/profit from operations before net finance costs	3	**187**	5 088
(885)	**(1 760)**	Net finance costs	4	**(2 211)**	(2 637)
2 538	**(6 226)**	(Loss)/profit before other income and fair value adjustments		**(2 024)**	2 451
4 615	**852**	Other income	5	**342**	3 799
(1 977)	**(833)**	Fair value adjustments	6	**(4 529)**	(7 074)
		Income from associates	12	**92**	199
5 176	**(6 207)**	(Loss)/profit before taxation		**(6 119)**	(625)
(183)	**(130)**	Taxation	7	**(204)**	(16)
4 993	**(6 337)**	(Loss)/profit after taxation		**(6 323)**	(641)
		Minority interests	20	**(9)**	220
4 993	**(6 337)**	**(Loss)/profit for the year**		**(6 332)**	(421)
2 656	**2 573**	**Headline earnings/(loss)**	33	**(1 760)**	(2 831)

Balance sheets

at 31 March 2004

Company 2003 R million	Company 2004 R million		Notes	Group 2004 R million	Group 2003 R million
		ASSETS			
		Non-current assets			
35 168	36 615	Property, plant and equipment	8	46 854	46 726
48	47	Net intangible assets	9	14	4
3 734	3 241	Long-term loans and advances	10	3 241	3 810
3 057	2 555	Derivative financial assets	16	4 910	3 191
4 637	1 031	Investments in subsidiaries	11	–	–
814	838	Investments in associates	12	1 019	921
126	244	Investments	13	1 118	152
–	–	Deferred taxation	24	–	79
47 584	44 571			57 156	54 883
		Current assets			
793	922	Inventories	14	1 525	1 370
3 506	3 153	Trade and other receivables	15	7 359	6 261
409	512	Derivative financial assets	16	535	417
1 831	1 110	Short-term investments	13	1 566	4 101
1 332	1 468	Cash and cash equivalents	17	4 559	1 734
7 871	7 165			15 544	13 883
55 455	51 736	**Total assets**		72 700	68 766
		EQUITY AND LIABILITIES			
		Capital and reserves			
14 710	14 710	Issued capital	18	14 710	14 710
5 995	(4 076)	Reserves	19	(5 880)	2 807
20 705	10 634	Shareholder’s interest		8 830	17 517
		Minority interests	20	111	124
		Non-current liabilities			
7 193	7 598	Retirement benefit obligations	21	7 610	7 249
13 996	11 454	Long-term borrowings	22	18 309	19 249
4 261	6 668	Derivative financial liabilities	16	6 797	5 591
476	498	Long-term provisions	23	663	580
–	–	Deferred taxation	24	35	–
25 926	26 218			33 414	32 669
		Current liabilities			
4 184	5 304	Trade and other payables	25	12 347	11 118
2 933	7 392	Short-term borrowings	26	9 537	3 355
–	130	Taxation		164	5
784	1 439	Derivative financial liabilities	16	7 396	2 684
428	423	Short-term provisions	23	666	543
495	196	Bank overdraft	17	235	751
8 824	14 884			30 345	18 456
55 455	51 736	**Total equity and liabilities**		72 700	68 766

Statements of changes in equity

at 31 March 2004

Group

	Notes	Issued capital R million	Revaluation reserves R million	Foreign currency translation reserve R million	Other R million	Accumulated profit/(loss) R million	Total reserves R million	TOTAL R million
			Reserves					
Balance at 31 March 2002	18,19	**14 710**	**4 826**	**18**	**1 210**	**96**	**6 150**	**20 860**
Loss for the year	19					(421)	(421)	(421)
MTN Group Limited – revaluation of investment to market value	19		31				31	31
Transfers from accumulated loss	19		12			(12)	–	–
Foreign currency translation reserve	19			(17)			(17)	(17)
Deferred cash flow hedges	19				(1 391)		(1 391)	(1 391)
Deferred cash flow hedges reversal	19				(120)		(120)	(120)
Net increase in revaluation reserves	19		100				100	100
Dividends paid	19					(1 525)	(1 525)	(1 525)
Balance at 31 March 2003	18,19	**14 710**	**4 969**	**1**	**(301)**	**(1 862)**	**2 807**	**17 517**
Adjustment to accumulated loss	19					(4 290)	(4 290)	(4 290)
Effect of adopting AC133								
– Impairment of debtors						(133)	(133)	(133)
– Revaluation of funding bonds						(194)	(194)	(194)
– Amortised cost of current liabilities						1	1	1
– Valuation of embedded derivatives						(3 964)	(3 964)	(3 964)
Restated balance at 1 April 2003	18,19	**14 710**	**4 969**	**1**	**(301)**	**(6 152)**	**(1 483)**	**13 227**
Loss for the year	19					(6 332)	(6 332)	(6 332)
MTN Group Limited – revaluation of investment to market value	19		124				124	124
Transfer from accumulated loss				(5)		5	–	–
Foreign currency translation reserve	19			(81)			(81)	(81)
Deferred cash flow hedges reversal	19				1 442		1 442	1 442
Net increase in revaluation reserves	19		375				375	375
Net increase in other reserves	19				75		75	75
Balance at 31 March 2004	18,19	**14 710**	**5 468**	**(85)**	**1 216**	**(12 479)**	**(5 880)**	**8 830**

Company

	Notes	Reserves						
		Issued capital	Re-valuation reserves	Foreign currency translation reserve	Other	Accumu-lated profit/ (loss)	Total reserves	TOTAL
	Notes	R million	R million	R million	R million	R million	R million	R million
Balance at 31 March 2002	18,19	**14 710**	**7 998**	**–**	**1 084**	**(3 411)**	**5 671**	**20 381**
Profit for the year	19					4 993	4 993	4 993
MTN Group Limited – revaluation of investment to market value	19		(11)				(11)	(11)
MTN Group Limited – realisation on disposal	19		(3 118)				(3 118)	(3 118)
Net increase in other reserves	19				3		3	3
Net decrease in revaluation reserves	19		(18)				(18)	(18)
Dividends paid	19					(1 525)	(1 525)	(1 525)
Balance at 31 March 2003	18,19	**14 710**	**4 851**	**–**	**1 087**	**57**	**5 995**	**20 705**
Adjustment to retained income	19					(4 241)	(4 241)	(4 241)
Effect of adopting AC133								
– Impairment of debtors						(132)	(132)	(132)
– Revaluation of funding bonds						(194)	(194)	(194)
– Valuation of embedded derivatives						(3 964)	(3 964)	(3 964)
– Impairment of loans						49	49	49
Restated balance at 1 April 2003	18,19	**14 710**	**4 851**	**–**	**1 087**	**(4 184)**	**1 754**	**16 464**
Loss for the year	19					(6 337)	(6 337)	(6 337)
MTN Group Limited – revaluation of investment to market value	19		136				136	136
Net increase in revaluation reserves	19		374				374	374
Net decrease in other reserves	19				(3)		(3)	(3)
Balance at 31 March 2004	18,19	**14 710**	**5 361**	**–**	**1 084**	**(10 521)**	**(4 076)**	**10 634**

Cash flow statements

for the year ended 31 March 2004

Company 2003 R million	Company 2004 R million		Notes	Group 2004 R million	Group 2003 R million
4 616	**5 622**	**Cash flows from operating activities**		**3 113**	3 409
5 346	**5 938**	Cash generated from operations	32.1	**6 917**	7 178
1 348	**1 377**	Changes in working capital	32.2	**580**	1 625
6 694	**7 315**	Cash generated from operations after working capital changes		**7 497**	8 803
(2 309)	**(1 864)**	Interest paid		**(2 361)**	(2 654)
1 140	**854**	Investment income		**346**	992
(183)	**–**	Taxation paid	32.3	**(31)**	(259)
(512)	**(455)**	Settlement of retirement obligations		**(499)**	(518)
1 311	**(228)**	Net forex and derivative gain/(loss)		**(1 839)**	(1 426)
(1 525)	**–**	Dividend paid including minorities		**–**	(1 529)
400	**(6 970)**	**Cash flows from investing activities**		**(5 468)**	(2 814)
3 387	**(4 391)**	*Investment to maintain operations*		**(2 880)**	317
(1 475)	**(890)**	Replacements – property, plant and equipment		**(5 232)**	(7 963)
(32)	**(81)**	Additions to intangible assets		**(86)**	(207)
57	**51**	Proceeds on the disposal of property, plant and equipment		**449**	310
88	**13**	Proceeds on the disposal of intangible assets		**13**	488
4 299	**–**	Proceeds on the disposal of investments and associates		**–**	4 299
109	**7**	Proceeds on the disposal of subsidiaries	32.4	**7**	109
–	**(6 089)**	SAA recapitalisation		**–**	–
–	**(25)**	Acquisition of associates		**(26)**	–
(623)	**1 596**	Loans realised/(advanced) to subsidiaries/associates		**14**	–
(991)	**424**	Net loans received/(advanced)		**412**	(1 215)
1 955	**603**	Decrease in short-term investments		**1 569**	4 496
(2 987)	**(2 579)**	*Investment to expand operations*		**(2 588)**	(3 131)
(2 428)	**(2 579)**	Expansions – property, plant and equipment		**(2 588)**	(2 638)
(559)	**–**	Acquisition of short-term investments and associates		**–**	(493)
(9 594)	**1 783**	**Cash flows from financing activities**		**5 696**	(5 719)
(3 537)	**(2 676)**	Net long-term borrowings (repaid)/raised		**(486)**	192
(6 057)	**4 459**	Short-term loans raised/(repaid)		**6 182**	(5 911)
(4 578)	**435**	Net increase/(decrease) in cash and cash equivalents		**3 341**	(5 124)
–	**–**	Net forex adjustment to cash balances		**–**	(949)
5 415	**837**	Cash and cash equivalents at the beginning of the year		**983**	7 056
837	**1 272**	**Cash and cash equivalents at the end of the year**	17	**4 324**	983

Notes to the financial statements

for the year ended 31 March 2004

CHANGE IN ACCOUNTING POLICY

The Group has fully adopted the South African Statement of Generally Accepted Accounting Practice AC 133 – Financial Instruments, Recognition and Measurement, with effect from 1 April 2003. This accounting standard was partially adopted with effect from 1 April 2001, when standalone derivatives were brought onto the balance sheet.

AC 133 has introduced a comprehensive accounting framework for all financial instruments. The Group's detailed accounting policies in respect of such instruments are set out on pages 56 to 58.

The principal effect of fully adopting AC 133 has been the recognition of impairment provisions for loans and receivables originated by the Group based on the net present value of expected future cash flows, the derecognition of Transnet bonds in the market making portfolio, and the recognition of embedded derivatives on the balance sheet at fair value, with effect from 1 April 2003.

The effect of the adoption of AC 133 on the opening accumulated loss and current year losses is summarised as follows:

Company			Group	
2003 R million	**2004 R million**		**2004 R million**	2003 R million
	4 241	Gross – Loss	**4 290**	
	–	Taxation	**–**	
	–	Minority interest	**–**	
	4 241	Net effect on opening accumulated profit/loss	**4 290**	
	437	Gross – Loss	**663**	
	–	Taxation	**–**	
	–	Minority interest	–	
	437	Net effect on current year losses	**663**	

2003 R million	**2004 R million**		**2004 R million**	2003 R million
22 099	**25 744**	**1. TURNOVER**	**43 637**	41 278
		Included in turnover is a contractual payment from government via the South African Railway Commuter Corporation (SARCC) of R1 262 million (2003: R1 150 million). This payment is applied in the operation of the commuter rail network operated by Metrorail.		
		Revenue comprises:		
22 099	**25 744**	Turnover	**43 637**	41 278
1 107	**779**	Interest received (refer note 5)	**272**	967
8	**1**	Dividends received (refer note 5)	**1**	–
23 214	**26 524**		**43 910**	42 245

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		2. NET OPERATING EXPENSES		
17	82	Net amortisation of intangible assets (refer note 3)	64	49
1 560	1 526	Depreciation (refer note 3)	2 536	2 209
435	561	Electronic data costs	1 221	1 066
1 985	1 967	Energy costs	4 947	5 446
116	123	Accommodation and refreshments	693	969
322	343	Health and sanitation	399	373
149	136	Insurance	304	731
433	694	Impairment of assets (refer note 3)	4 221	493
827	8 096	Impairment provision for loss-making subsidiaries (refer note 3)	1	140
2 008	2 481	Maintenance	2 714	2 279
367	318	Managerial and technical consulting fees	398	509
1 973	2 489	Material costs	3 863	3 319
–	–	Navigation, landing and parking fees	888	895
1 514	1 729	Operating leases (refer note 3)	3 930	3 676
–	–	Passenger handling, rescheduling and airline costs	1 288	1 252
8 371	9 270	Personnel costs	12 795	11 879
108	139	Promotions and advertising	849	796
73	76	Printing and stationery	154	155
(56)	131	Loss/(profit) on disposal of property, plant and equipment (refer note 3)	408	(146)
(66)	(13)	Profit on disposal of intangible assets (refer note 3)	(13)	(66)
224	1 504	Post-retirement benefit costs	1 681	347
385	442	Security	524	526
636	823	Telecommunications	919	800
194	236	Transport	829	783
335	1 026	Other	2 715	1 522
(3 234)	(3 969)	*Less:* Recoveries net of expenses	(4 878)	(3 812)
18 676	30 210		43 450	36 190

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		3. (LOSS)/PROFIT FROM OPERATIONS BEFORE NET FINANCE COSTS is stated after taking into account the following amounts:		
42	43	**Auditors remuneration**	55	55
37	38	*Group auditors*	45	46
33	33	Audit fees	38	36
2	–	Fees for other services	1	5
2	2	Expenses	3	3
–	3	Underprovision prior year	3	2
5	5	*Other auditors*	10	9
4	4	Audit fees	8	8
1	1	Fees for other services	2	1

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		3. (LOSS)/PROFIT FROM OPERATIONS BEFORE NET FINANCE COST (continued)		
17	82	**Amortisation of intangible assets (refer note 9)**	64	49
–	–	Goodwill	5	54
–	–	Released negative goodwill	(57)	(57)
17	82	Software and licences	116	52
1 560	1 526	**Depreciation**	2 536	2 209
1 493	1 546	*Depreciation – owned assets*	2 213	2 142
–	–	Aircraft	438	415
91	110	Land, buildings and structures	121	107
294	236	Machinery, equipment and furniture	278	334
157	158	Permanent way and works	158	157
143	142	Pipeline networks	142	143
401	419	Port facilities	419	401
299	404	Rolling stock and containers	405	302
108	77	Vehicles	252	283
67	(20)	*Depreciation – leased assets*	323	67
57	(28)	Rolling stock – including change in estimate	(27)	57
10	8	Aircraft	350	10
190	201	**Included above is depreciation on the revalued portion of the following assets:**	201	190
59	46	Pipeline networks	46	59
131	155	Port facilities	155	131
367	318	Managerial and technical consulting fees	398	509
1 514	1 729	**Operating lease charges**	3 930	3 676
1	1	Aircraft	1 645	1 715
599	413	Land, buildings and structures	476	466
914	1 315	Other	1 809	1 495
–	–	Loss on revaluation of listed shares to market value	–	21
(56)	131	Loss/(profit) on disposal of property, plant and equipment	408	(146)
(66)	(13)	Profit on disposal of intangible assets	(13)	(66)
827	8 096	Impairment provision for loss-making subsidiaries (refer note 11)	1	140
433	694	**Impairment of assets**	4 221	493
–	–	Intangible assets	12	–
433	694	Property, plant and equipment	4 027	493
–	–	Trade and other receivables	182	–
36	70	Research and development costs	76	41
15	19	**Directors' emoluments (full details are disclosed in the directors' report)**		
12	16	Executive directors and group executives		
3	3	Non-executive directors		

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		4. NET FINANCE COSTS		
(1 482)	**(277)**	Net foreign exchange gain on translation	**(323)**	(75)
58	**173**	Discounts on bonds amortised	**173**	58
2 309	**1 864**	Interest paid	**2 361**	2 654
885	**1 760**		**2 211**	2 637
		5. OTHER INCOME		
3 475	**(2)**	Profit on sale of interests in subsidiaries, associates and divisions	**(7)**	2 828
–	**–**	Profit/(loss) on sale of unlisted investments	**2**	(21)
8	**1**	Dividends received	**1**	–
411	**677**	Interest received from subsidiaries	**–**	–
696	**102**	Interest received from other investments	**272**	967
25	**74**	Profit on sale of treasury investments	**74**	25
4 615	**852**		**342**	3 799
		6. FAIR VALUE ADJUSTMENTS		
(1 095)	**(1 722)**	Derivative fair value adjustments (refer note 16)	**(6 210)**	(6 193)
–	**–**	Revaluation/(impairment) of investments	**1 835**	(991)
(1 043)	**1 043**	Reversal of/(increase) in guarantee provision for zero coupon promissory notes	**–**	–
161	**(93)**	Forward exchange cover (cost)/income (refer note 16)	**(93)**	110
–	**(61)**	Other fair value adjustments	**(61)**	–
(1 977)	**(833)**		**(4 529)**	(7 074)
		7. TAXATION		
		South African normal taxation		
–	**130**	– Current year	**190**	40
		Deferred taxation		
–	**–**	– Current year	**14**	(208)
183	**–**	Secondary taxation on companies	**–**	184
183	**130**		**204**	16
%	**%**	**Reconciliation of rate of taxation:**	**%**	%
30,00	**30,00**	Standard rate – South African normal taxation	**30,00**	30,00
(26,83)	**(32,09)**	**Adjust for permanent differences and assessed loss**	**(33,33)**	(32,56)
(9,10)	**(24,48)**	Permanent differences	**18,35**	(8,92)
3,17	**–**	Secondary tax on companies	**–**	29,44
(4,00)	**(19,10)**	Deferred taxation not provided	**(63,37)**	(34,23)
(16,90)	**11,49**	Assessed loss utilised	**11,69**	(18,85)
3,17	**(2,09)**	Effective tax rate	**(3,33)**	(2,56)
R million	**R million**		**R million**	R million
2 377	**–**	The Company and the Group have estimated tax losses of	**9 250**	3 613
		These estimated losses which are available for the reduction of future taxable income, have been taken into account in calculating deferred taxation.		

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		8. PROPERTY, PLANT AND EQUIPMENT		
52 471	**56 044**	**Gross carrying value – beginning of year**	**70 737**	61 043
50	**50**	– Aircraft	**9 187**	5 440
6 749	**6 987**	– Land, buildings and structures	**7 572**	7 188
3 108	**3 318**	– Machinery, equipment and furniture	**3 967**	3 822
6 738	**6 848**	– Permanent way and works	**6 849**	6 739
8 464	**9 037**	– Rolling stock and containers	**9 073**	8 496
1 258	**1 198**	– Vehicles	**2 399**	2 456
2 829	**5 056**	– Capital work in progress	**8 140**	3 627
6 568	**6 972**	– Pipeline networks	**6 972**	6 568
16 707	**16 578**	– Port facilities	**16 578**	16 707
3 979	**3 469**	*Additions*	**7 820**	10 601
–	**–**	– Aircraft	**3 798**	3 840
277	**180**	– Land, buildings and structures	**296**	423
283	**642**	– Machinery, equipment and furniture	**625**	266
125	**197**	– Permanent way and works	**196**	125
593	**807**	– Rolling stock and containers	**799**	597
–	**48**	– Vehicles	**377**	363
2 227	**1 024**	– Capital work in progress	**1 158**	4 513
–	**199**	– Pipeline networks	**199**	–
474	**372**	– Port facilities	**372**	474
(817)	**(456)**	*Disposals*	**(2 218)**	(1 318)
–	**–**	– Aircraft	**(1 584)**	(93)
(39)	**(77)**	– Land, buildings and structures	**(68)**	(39)
(73)	**(174)**	– Machinery, equipment and furniture	**(189)**	(121)
(15)	**(60)**	– Permanent way and works	**(60)**	(15)
(20)	**(78)**	– Rolling stock and containers	**(79)**	(20)
(60)	**(94)**	– Vehicles	**(265)**	(420)
–	**73**	– Capital work in progress – adjustment	**73**	–
(610)	**(46)**	– Port facilities	**(46)**	(610)
411	**380**	*Revaluations*	**378**	411
–	**–**	– Land, buildings and structures	**(2)**	–
404	**135**	– Pipeline networks	**135**	404
7	**245**	– Port facilities	**245**	7
56 044	**59 437**	**Gross carrying value – end of year**	**76 717**	70 737
50	**50**	– Aircraft	**11 401**	9 187
6 987	**7 090**	– Land, buildings and structures	**7 798**	7 572
3 318	**3 786**	– Machinery, equipment and furniture	**4 403**	3 967
6 848	**6 985**	– Permanent way and works	**6 985**	6 849
9 037	**9 766**	– Rolling stock and containers	**9 793**	9 073
1 198	**1 152**	– Vehicles	**2 511**	2 399
5 056	**6 153**	– Capital work in progress	**9 371**	8 140
6 972	**7 306**	– Pipeline networks	**7 306**	6 972
16 578	**17 149**	– Port facilities	**17 149**	16 578

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		8. PROPERTY, PLANT AND EQUIPMENT (continued)		
(19 191)	**(20 876)**	**Accumulated depreciation – Beginning of year**	**(24 011)**	(21 920)
(19 113)	**(20 365)**	*Accumulated depreciation*	**(23 305)**	(21 707)
(32)	**(42)**	– Aircraft	**(2 187)**	(1 798)
(732)	**(815)**	– Land, buildings and structures	**(863)**	(773)
(1 886)	**(2 104)**	– Machinery, equipment and furniture	**(2 416)**	(2 187)
(1 721)	**(1 872)**	– Permanent way and works	**(1 872)**	(1 721)
(3 601)	**(3 951)**	– Rolling stock and containers	**(3 971)**	(3 618)
(845)	**(909)**	– Vehicles	**(1 324)**	(1 314)
(3 685)	**(4 208)**	– Pipeline networks	**(4 208)**	(3 685)
(6 611)	**(6 464)**	– Port facilities	**(6 464)**	(6 611)
(78)	**(511)**	*Impairment*	**(706)**	(213)
–	**–**	– Aircraft	**(189)**	(129)
(47)	**(50)**	– Land, buildings and structures	**(50)**	(47)
(1)	**(42)**	– Machinery, equipment and furniture	**(43)**	(2)
–	**–**	– Vehicles	**(5)**	(5)
(30)	**(419)**	– Port facilities	**(419)**	(30)
(1 560)	**(1 526)**	*Depreciation*	**(2 536)**	(2 209)
(10)	**(8)**	– Aircraft	**(788)**	(425)
(91)	**(110)**	– Land, buildings and structures	**(121)**	(107)
(294)	**(236)**	– Machinery, equipment and furniture	**(278)**	(334)
(157)	**(158)**	– Permanent way and works	**(158)**	(157)
(356)	**(376)**	– Rolling stock and containers	**(378)**	(359)
(108)	**(77)**	– Vehicles	**(252)**	(283)
(143)	**(142)**	– Pipeline networks	**(142)**	(143)
(401)	**(419)**	– Port facilities	**(419)**	(401)
738	**274**	*Disposals*	**711**	1 041
–	**–**	– Aircraft	**311**	36
8	**7**	– Land, buildings and structures	**5**	17
76	**120**	– Machinery, equipment and furniture	**134**	105
6	**6**	– Permanent way and works	**6**	6
6	**3**	– Rolling stock and containers	**4**	6
44	**89**	– Vehicles	**202**	273
598	**49**	– Port facilities	**49**	598

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		8. PROPERTY, PLANT AND EQUIPMENT (continued)		
(433)	**(694)**	*Impairment*	**(4 027)**	(493)
–	**–**	– Aircraft	**(3 333)**	(60)
(3)	**(150)**	– Land, buildings and structures	**(150)**	(3)
(41)	**(208)**	– Machinery, equipment and furniture	**(208)**	(41)
–	**(318)**	– Pipeline networks	**(318)**	–
(389)	**(18)**	– Port facilities	**(18)**	(389)
(430)	**–**	*Impairment transferred directly to equity*	**–**	(430)
(380)	**–**	– Pipeline networks	**–**	(380)
(50)	**–**	– Port facilities	**–**	(50)
(20 876)	**(22 822)**	**Accumulated depreciation – end of year**	**(29 863)**	(24 011)
(20 365)	**(21 617)**	*Accumulated depreciation*	**(25 130)**	(23 305)
(42)	**(50)**	– Aircraft	**(2 664)**	(2 187)
(815)	**(918)**	– Land, buildings and structures	**(979)**	(863)
(2 104)	**(2 220)**	– Machinery, equipment and furniture	**(2 560)**	(2 416)
(1 872)	**(2 024)**	– Permanent way and works	**(2 024)**	(1 872)
(3 951)	**(4 324)**	– Rolling stock and containers	**(4 345)**	(3 971)
(909)	**(897)**	– Vehicles	**(1 374)**	(1 324)
(4 208)	**(4 350)**	– Pipeline networks	**(4 350)**	(4 208)
(6 464)	**(6 834)**	– Port facilities	**(6 834)**	(6 464)
(511)	**(1 205)**	*Impairment*	**(4 733)**	(706)
–	**–**	– Aircraft	**(3 522)**	(189)
(50)	**(200)**	– Land, buildings and structures	**(200)**	(50)
(42)	**(250)**	– Machinery, equipment and furniture	**(251)**	(43)
–	**–**	– Vehicles	**(5)**	(5)
–	**(318)**	– Pipeline networks	**(318)**	–
(419)	**(437)**	– Port facilities	**(437)**	(419)
35 168	**36 615**	**Net carrying value – end of year**	**46 854**	46 726
8	**–**	– Aircraft	**5 215**	6 811
6 122	**5 972**	– Land, buildings and structures	**6 619**	6 659
1 172	**1 316**	– Machinery, equipment and furniture	**1 592**	1 508
4 976	**4 961**	– Permanent way and works	**4 961**	4 977
5 086	**5 442**	– Rolling stock and containers	**5 448**	5 102
289	**255**	– Vehicles	**1 132**	1 070
5 056	**6 153**	– Capital work in progress	**9 371**	8 140
2 764	**2 638**	– Pipeline networks	**2 638**	2 764
9 695	**9 878**	– Port facilities	**9 878**	9 695

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		8. PROPERTY, PLANT AND EQUIPMENT (continued)		
		Property, plant and equipment is stated at historical cost except for pipeline networks and port facilities, which are stated at revalued amounts.		
		Aircraft were impaired to their current market value.		
8	–	Included in aircraft are capitalised leased assets with a net carrying value of	4 297	1 550

The capitalised aircraft are encumbered as security for the repayment of lease commitments (refer note 22 and 27.3).

A register of land, buildings and structures is open for inspection at the registered office of the company.

During the year under review the directors revalued certain categories of property, plant and equipment on the basis of depreciated replacement cost/modern equivalent asset. Where the revaluation resulted in a carrying value greater than the expected recoverable amount, the recoverable amount was impaired to the expected value in use.

Included in rolling stock are locomotives that were leased and leased back. The locomotives are leased to a third party, refurbished and then leased to a financier which in turn leases the assets back to the Company. This has been treated as a structured loan. The loan is secured by virtue of the lease agreements and a collateral covering bond over the refurbished locomotives. The book value of the refurbished locomotives which are so encumbered amounts to R255 million.

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		8. PROPERTY, PLANT AND EQUIPMENT (continued)		
547	518	Included in rolling stock assets are capitalised leased assets with a carrying value of	518	547
		These assets were part of a sale and lease back arrangement giving rise to a finance lease entered into in 1997. The present value of the lease commitments has been settled in full.		
		Port facilities and pipeline networks were revalued at 31 March 2004 on the basis as detailed in the directors' report.		
		The historic carrying values of these assets amount to:		
2 241	2 241	Pipeline networks	2 241	2 241
6 612	6 612	Port facilities	6 612	6 612
		Investment property (included in land, buildings and structures)		
		Fair value at the beginning of the year	32	
		Decrease in fair value during the year	(2)	
		Fair value at the end of the year	30	
		The fair value of the Group's investment property at 31 March 2004 was arrived at on the basis of valuations carried out at that date by Propnet's valuers.		
		The valuations, which conform to the Property Valuers Profession Act (Act 47 of 2000), were arrived at by capitalising the first year's normalised net operating income by a market derived capitalisation rate.		
		The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to R6 181 468 (2003: R6 204 090).		
		Direct operating expenses arising on the investment property in the period amounted to R4 933 107 (2003: R2 938 493).		

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		9. INTANGIBLE ASSETS		
		Goodwill attributable to MTN Group Limited	–	–
		Balance at the beginning of the year	–	524
		Amortisation	–	(49)
		Reduction due to disposal	–	(467)
		Transfer to listed investments	–	(8)
		Other goodwill	25	30
		Balance at the beginning of the year	30	19
		Additional goodwill on acquisition of subsidiaries	–	16
		Amortisation	(5)	(5)
		Positive goodwill	25	30
		Negative goodwill on reacquisition of 20% of SAA (Pty) Limited	(173)	(230)
		Opening balance	(230)	(287)
		Released	57	57
48	47	**Software and licences**	162	204
108	189	*Software and licences – at cost*	418	333
173	108	Balance at the beginning of the year	333	464
32	81	Additions	86	162
(97)	–	Disposals	(1)	(293)
(60)	(142)	*Accumulated amortisation of software and licences*	(256)	(129)
(118)	(60)	Balance at the beginning of the year	(129)	(352)
–	–	Impairment	(12)	–
75	–	Disposals	1	275
(17)	(82)	Amortisation	(116)	(52)
48	47	**Net intangible assets**	14	4

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		10. LONG-TERM LOANS AND ADVANCES		
12	**9**	**Directors' and managers' loans**	**9**	12
14	**12**	Balance at the beginning of the year	**12**	14
5	**1**	Advances	**1**	5
(7)	**(4)**	Repayments	**(4)**	(7)
3 658	**3 183**	**Employee housing and other loans**	**3 037**	3 632
2 869	**3 658**	Balance at the beginning of the year	**3 632**	2 852
1 269	**511**	Advances	**391**	1 285
(296)	**(764)**	Repayments	**(764)**	(296)
3 842	**3 405**		**3 259**	3 841
(184)	**(222)**	Short-term portion transferred to trade and other receivables (refer note 15)	**(222)**	(209)
64	**49**	Other loans and advances	**195**	166
3 734	**3 241**		**3 241**	3 810

Included in directors' and managers' loans are the following:

	Opening balance R000	Capitalised interest/ advances R000	Repaid R000	**Closing balance Housing R000**	**Closing balance Vehicles R000**	TOTAL **2004 R000**	TOTAL 2003 R000
Mr SS Ntsaluba*	716	35	–	731	20	**751**	716
Ms M Ramos	–	634	(85)	–	549	**549**	–
Ms SN Mabaso	435	–	(83)	–	352	**352**	435
Ms NV Phiyega	1 513	–	(127)	1 263	123	**1 386**	1 513
	2 664	669	(295)	1 994	1 044	**3 038**	2 664

These loans are secured and bear variable interest that is linked to prime. The current rates are 8,9% for motor vehicles and 10,5% to 12% for housing loans.

Repayment terms vary between three and five years for motor vehicles and up to a maximum of 25 years for housing loans.

Housing loans are secured by first mortgage bonds over the related property and other guarantees.

** Past director*

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		11. INVESTMENTS IN SUBSIDIARIES (refer Annexure C)		
2 849	8 936	Shares at cost	–	–
3 352	1 755	Amounts owing by subsidiaries	141	140
6 201	10 691		141	140
(1 564)	(9 660)	Provision for impairment	(141)	(140)
4 637	1 031		–	–

For a detailed breakdown of investments in subsidiaries refer to Annexure C.

A subsidiary, Transwerk Foundries (Pty) Limited, was reacquired in 2003. Due to approved plans to close a substantial portion of the business, the directors have not consolidated the results of this subsidiary. The Group's exposure to the subsidiary has been fully provided for. A summarised income statement and residual balance sheet have not been separately disclosed as they are immaterial.

Loans to subsidiaries that have been subordinated in favour of these subsidiaries amount to R 4 328 million (2003: R2 175 million). Included in the subordinated loans is a R4 000 million compulsory convertible subordinated loan provided subsequent to year end. In addition, the company has issued letters of support to the following subsidiaries:

– SA Airways (Pty) Limited
– SA Express Airways (Pty) Limited
– B2B Africa (Pty) Limited
– Autopax (Pty) Limited

The credit facilities available in terms of these letters of support are as follows:

	Group 2004 R million
– SA Airways (Pty) Limited	1 500
– SA Express Airways (Pty) Limited	400
– B2B Africa (Pty) Limited	100
– Autopax (Pty) Limited	6
	2 006

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		12. INVESTMENTS IN ASSOCIATES (refer Annexure C)		
44	69	**Minor associates**	98	64
44	69	Shares at cost	70	44
–	–	*Share of post-acquisition reserves*	28	20
–	–	Balance at the beginning of the year	20	25
–	–	Current year equity earnings*	13	12
–	–	Other reserve movements	(5)	(17)
210	210	**Investment in arivia.kom (Pty) Limited**	185	176
210	210	Shares at cost	210	210
–	–	*Share of post-acquisition reserves*	(25)	(34)
–	–	Balance at the beginning of the year	(34)	(22)
–	–	Current year equity earnings*	9	(12)
424	424	**Investment in V&A Holdings (Pty) Limited**	611	541
424	424	Shares at cost	424	424
–	–	*Share of post-acquisition reserves*	68	(2)
–	–	Balance at the beginning of the year	(2)	–
–	–	Current year equity earnings*	70	(2)
–	–	Share of fair value adjustment	119	119

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
–	–	**12. INVESTMENTS IN ASSOCIATES (continued)** **Investment in MTN Group Limited**	–	–
–	–	*MTN Group Limited – at cost*	–	–
1 011	–	Balance at the beginning of the year	–	332
(994)	–	Disposal of 98% of Transnet Group's interest in MTN Group Limited	–	(327)
(17)	–	Transfer of MTN Group Limited shares to listed investments	–	(5)
–	–	*MTN Group Limited's share of post-acquisition reserves*	–	–
–	–	Balance at the beginning of the year	–	653
–	–	Current year equity earnings*	–	201
–	–	Disposal of 98% of Transnet Group's interest in MTN Group Limited	–	(841)
–	–	Transfer of MTN Group Limited shares to listed investments	–	(13)
–	–	*Revaluation to market value recognised in opening distributable reserves*	–	–
3 172	–	Net opening valuation at market value	–	–
(3 118)	–	Realisation of reserve on disposal of 98% of Transnet Group's shareholding in MTN Group Limited	–	–
(54)	–	Transfer of MTN Group Limited shares to listed investments	–	–
678	703		894	781
136	135	*Loans*	125	140
–	136	Balance at the beginning of the year	140	–
136	(1)	Loans transferred/advanced	(15)	140
814	838		1 019	921
917	1 029	Directors' valuation of unlisted investments in associates	1 019	921
		* Total income from associates amounted to	92	199

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		13. INVESTMENTS		
63	220	Listed investments at market value	241	89
63	24	Unlisted investments	877	63
1 831	1 110	Short-term investments including market making positions	1 566	4 101
1 957	1 354	Total investments	2 684	4 253
1 831	1 110	*Less:* Short-term investments including market making positions disclosed as current assets	1 566	4 101
126	244		1 118	152
63	24	Directors' valuation of unlisted investments	877	63
		14. INVENTORIES		
		At weighted average cost		
194	189	Raw materials	197	199
361	405	Maintenance material	405	361
31	28	Consumables	178	203
66	96	Finished goods	99	69
652	718		879	832
		At net realisable value		
8	37	Maintenance material	214	206
28	66	Consumables	283	171
33	14	Finished goods	14	34
69	117		511	411
72	87	Work in progress	135	127
793	922		1 525	1 370
		15. TRADE AND OTHER RECEIVABLES		
2 441	2 360	Trade receivables	4 101	3 976
881	571	Prepayments and other amounts receivable*	3 036	2 076
184	222	Short-term portion of loans and advances (refer note 10)	222	209
3 506	3 153		7 359	6 261

At the end of the financial year SAA took delivery of an Airbus A340-300e. The acquisition was financed by way of a short-term bridging finance facility with the intention to enter into an operating lease agreement within the next financial year. As the intention is not to hold the asset in the long-term, it does not meet the requirements to be classified as property, plant and equipment (as there is no expectation that the aircraft will be used during more that one accounting period but will be leased under an operating lease). This asset has therefore been disclosed as a current asset and impaired to reflect the present value of expected future cash flows that will arise from entering into the operating lease.

The pre-delivery payments (PDP's) made to secure the manufacture and delivery of eleven A319-100 aircraft have been disclosed as short-term receivables as SAA has entered into operating leases and will no longer purchase these aircraft outright. The short-term monetary receivable represents the present value of the expected future proceeds to be received from the lessor when the aircraft are delivered.

R617 million of the refundable deposit arising from the A340-300e aircraft forms security for the bridging finance advanced and R650 million of the A319-100 aircraft refundable deposit forms security for the loans granted to finance the payment of PDP's.

**R1 267 million of this amount has been pledged as security for loans granted to a subsidiary.*

16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Both the Company and the Group use approved financial instruments, in particular forward exchange contracts, cross-currency swaps and options, interest rate swaps and options and jet fuel derivatives to hedge the financial risks associated with underlying business activities. All derivative financial instruments have been recorded at fair value with the resulting gain or loss taken to income statement. An amount of R1 446 million which was recognised in equity at Transnet Group level in the previous financial year was reversed in 2004. This amount related to losses on forward exchange contracts which then qualified in terms of the Group's accounting policies as future cash flow hedges.

Group	Forward exchange contracts R million	Cross currency swaps and options R million	Interest rate swaps and options R million	Embedded derivatives* R million	C-class preference shares** R million	Jet fuel derivative and other R million	**Group 2004 R million**	Group 2003 R million
Opening balance – asset	(66)	(2 951)	(71)	–	(520)	–	**(3 608)**	(4 423)
Opening balance – liabilities	4 087	3 948	169	–	–	71	**8 275**	827
Derivatives raised and settled	(460)	(215)	9	–	–	(2 239)	**(2 905)**	(377)
Closing balance – asset	3 149	2 153	117	–	2 355	(2 329)	**5 445**	3 608
Less: Current portion – asset	135	–	–	–	–	400	**535**	417
Non-current portion – asset	3 014	2 153	117	–	2 355	(2 729)	**4 910**	3 191
Closing balance – liabilities	(524)	(4 511)	(84)	(4 572)	–	(4 502)	**(14 193)**	(8 275)
Less: Current portion – liabilities	(266)	(1 387)	(24)	(695)	–	(5 024)	**(7 396)**	(2 684)
Non-current portion – liabilities	(258)	(3 124)	(60)	(3 877)	– –	522	**(6 797)**	(5 591)
Net movement	6 186	(1 576)	140	(4 572)	1 835	(8 999)	**(6 986)**	(8 640)

	Group 2004	Group 2003
Net movement comprises of:		
Adjustment to opening balances	**(3 964)**	–
Income statement charge	**(4 468)**	(7 074)
Derivative fair value adjustments (refer note 6)	**(6 210)**	(6 193)
Write-up/(impairment) of investment arising from disposal of the MTN Group Limited shares (refer note 6)	**1 835**	(991)
Forward exchange cover (cost)/income (refer note 6)	**(93)**	110
Hedging reserves recognised in equity	**1 446**	(1 566)
	(6 986)	(8 640)

* *Included in embedded derivatives are the valuations of two significant customer service contracts for which further detail can be found in Annexure B.*

** *Includes the Group's asset via an investment in "C" class preference shares in Newshelf 697 (Pty) Limited. The shares were subscribed to at a cost of R1 511 million as part of the sale process surrounding the 309 million MTN Group Limited shares. The value of these preference shares moves in concert with movements in the MTN Group Limited's share price in terms of a gain share redemption formula. The shares have been valued by a professional valuer. The profit on fair valuation is disclosed under note 6. The preference shares are redeemable at Transnet Limited's option any time between 2006 and 2008.*

16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (continued)

Company	Forward Exchange contracts R million	Cross currency swaps and options R million	Interest rate swaps and options R million	Em-bedded deriva-tives* R million	Guarantee and other** R million	Company 2004 R million	Company 2003 R million
Opening balance – asset	(17)	(3 308)	(141)	–	–	**(3 466)**	(1 929)
Opening balance – liabilities	471	3 435	96	–	1 043	**5 045**	1 050
Derivatives raised and settled	(451)	(215)	9	–	(618)	**(1 275)**	481
Closing balance – asset	353	2 594	117	–	3	**3 067**	3 466
Less: Current portion – asset	151	308	33	–	20	**512**	409
Non-current portion – asset	202	2 286	84	–	(17)	**2 555**	3 057
Closing balance – liabilities	(413)	(3 043)	(84)	(4 572)	5	**(8 107)**	(5 045)
Less: Current portion – liabilities	(268)	(1 496)	(24)	(695)	1 044	**(1 439)**	(784)
Non-current portion – liabilities	(145)	(1 547)	(60)	(3 877)	(1 039)	**(6 668)**	(4 261)
Net movement	(57)	(537)	(3)	(4 572)	433	**(4 736)**	(1 977)

	Company 2004 R million	Company 2003 R million
Net movement comprises of:		
Adjustment to opening balances	**(3 964)**	–
Income statement charge	**(772)**	(1 977)
Derivative fair value adjustments (refer note 6)	**(1 722)**	(1 095)
Decrease/(increase) in guarantee provision for zero coupon promissory notes (refer note 6)	**1 043**	(1 043)
Forward exchange cover (cost)/income (refer note 6)	**(93)**	161
	(4 736)	(1 977)

* *Included in embedded derivatives are the valuations of two significant customer service contracts for which further detail can be found in Annexure B.*

** *Included in the opening balance of the Company's derivative liabilities is its exposure to the zero coupon promissory notes utilised by Newshelf 697 (Pty) Limited. This exposure is in the form of a guarantee issued by Transnet Limited to the subscribers of the promissory notes. The guarantee is reversed at Group level as Newshelf 697 (Pty) Limited is consolidated thereby accounting for the effects of the guarantee. At year-end, the value of the assets underpinning the guarantee exceeded the liability. As a result, no liability was recognised at Company level.*

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		17. CASH AND CASH EQUIVALENTS		
1 332	**1 468**	Cash and cash equivalents	**4 559**	1 734
(495)	**(196)**	Bank overdraft	**(235)**	(751)
837	**1 272**		**4 324**	983

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		18. ISSUED CAPITAL		
		Authorised		
30 000	30 000	30 000 000 000 ordinary par value shares of R1 each	30 000	30 000
		Issued		
14 710	14 710	14 710 186 432 ordinary par value shares of R1 each	14 710	14 710
		The unissued share capital is under the control of the South African government, being the sole shareholder.		
		19. RESERVES		
4 851	5 361	**Revaluation reserves**	5 468	4 969
3 937	4 176	*Revaluation of port facilities*	4 176	3 936
3 979	3 937	Balance at the beginning of the year	3 936	3 979
(42)	239	Revaluation/(devaluation) during the current year	240	(43)
871	1 006	*Revaluation of pipeline networks*	1 006	871
847	871	Balance at the beginning of the year	871	847
24	135	Revaluation during the current year	135	24
43	179	*MTN Group Limited – revaluation of investment to market value*	167	43
3 172	43	Balance at the beginning of the year	43	–
(11)	136	MTN Group Limited – revaluation/(devaluation) of investment to market value	124	31
–	–	Transfer from accumulated profit	–	12
(3 118)	–	Realisation on the disposal of MTN Group Limited shares	–	–
–	–	V&A Holdings (Pty) Limited fair value adjustment	119	119
–	–	Foreign currency translation reserve	(85)	1
1 087	1 084	**Other reserves**	1 216	(301)
–	–	*Deferred cash flow hedges*	51	(1 391)
–	–	Balance at the beginning of the year	(1 391)	120
–	–	Fair value charge	–	(120)
–	–	Fair value increase/(decrease)	1 442	(1 391)
–	–	Other transfers	67	–
842	839	Profit on sale of interest in SAA (Pty) Limited	853	845
245	245	Share of pension fund surplus (retained for application against pensioners)	245	245
57	(10 521)	**Accumulated profit/(loss) for the year**	(12 479)	(1 862)
(3 411)	57	Balance at the beginning of the year	(1 862)	96
–	(4 241)	AC133 transitional adjustments	(4 290)	–
–	–	Net transfers	5	(12)
4 993	(6 337)	(Loss)/profit for the year	(6 332)	(421)
(1 525)	–	Dividends paid	–	(1 525)
5 995	(4 076)		(5 880)	2 807

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		20. MINORITY INTERESTS		
		Balance at the beginning of the year	**124**	341
		Transfer from the income statement	**9**	(220)
		Dividends paid to minorities	**–**	(4)
		Transfer from reserves	**–**	(69)
		Minorities introduced	**–**	93
		Minorities purchased	**(22)**	(17)
			111	124
		21. RETIREMENT BENEFIT OBLIGATIONS		
1 580	**1 369**	**SATS pensioners' post-retirement medical benefits (refer note 29.2.3)**	**1 369**	1 580
3 109	**1 580**	Balance at the beginning of the year	**1 580**	3 109
(1 143)	**175**	Current year provision	**175**	(1 143)
(386)	**(386)**	Settlement during the year	**(386)**	(386)
718	**738**	**Transnet employees post-retirement medical benefits (refer note 29.2.3)**	**745**	725
693	**718**	Balance at the beginning of the year	**725**	700
65	**58**	Current year provision	**58**	65
(40)	**(38)**	Settlement during the year	**(38)**	(40)
–	**–**	**Flight deck crew (refer note 29.1.6)**	**5**	49
–	**–**	Balance at the beginning of the year	**49**	55
–	**–**	Settlement during the year	**(44)**	(6)
4 535	**5 127**	**Transnet Second Defined Benefit Fund (refer note 29.1.3)**	**5 127**	4 535
4 117	**4 535**	Balance at the beginning of the year	**4 535**	4 117
418	**592**	Current year provision	**592**	418
113	**117**	**Top management (refer note 29.1.4)**	**117**	113
109	**113**	Balance at the beginning of the year	**113**	109
13	**13**	Current year provision	**13**	13
(9)	**(9)**	Settlement during the year	**(9)**	(9)
224	**231**	**Workmen's Compensation Act pensioners (refer note 29.1.4)**	**231**	224
211	**224**	Balance at the beginning of the year	**224**	211
28	**22**	Current year provision	**22**	28
(15)	**(15)**	Settlement during the year	**(15)**	(15)
23	**16**	**Black widows' pensions (refer note 29.1.5)**	**16**	23
85	**23**	Balance at the beginning of the year	**23**	85
(62)	**(7)**	Settlement during the year	**(7)**	(62)
7 193	**7 598**		**7 610**	7 249

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		22. LONG-TERM BORROWINGS (refer Annexure A)		
11 646	10 242	**Rand denominated unsecured liabilities**	10 271	11 651
13 367	11 668	Bonds at nominal value	11 668	13 367
(1 854)	(1 480)	Unamortised discounts	(1 480)	(1 854)
11 513	10 188	Bonds at carrying value	10 188	11 513
133	54	Other unsecured liabilities	83	138
1 250	952	Foreign currency denominated unsecured loans	959	1 252
1 606	1 492	**Secured loans and capitalised leases**	8 715	5 711
687	878	Rand denominated	2 834	2 074
919	614	Foreign currency denominated	5 881	3 637
–	–	Rand denominated promissory notes	1 741	1 563
14 502	12 686	Total long-term borrowings	21 686	20 177
(506)	(1 232)	Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings (refer note 26)	(3 377)	(928)
13 996	11 454		18 309	19 249

The rand denominated unsecured bonds and loans are redeemable between 2006 and 2017 and bear interest between 12,28% and 14,93% (refer Annexure A).

Foreign currency denominated unsecured loans and bonds are denominated in yen and euro. They are repayable in varying periods ranging between 2004 and 2029 and bear interest between 3% and 15,09% (refer Annexure A).

Rand denominated capitalised finance lease liabilities bear interest at rates ranging between 13% and 15% with all rates linked to prime. These liabilities are repayable over periods between one and five years.

Foreign currency denominated capitalised finance lease liabilities bear interest between 2% and 6%.

These liabilities are repayable over periods ranging between 2004 and 2016.

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		22. LONG-TERM BORROWINGS (continued)		
		The promissory notes are zero coupon notes and bear interest at JIBAR plus 40 basis points. They are redeemable at the Company's discretion between 2006 and 2008.		
		The Company has guaranteed the repayment of these promissory notes and the fair value of this guarantee is included in derivative liabilities (refer note 16).		
8	–	Assets pledged in support of the secured loans and capitalised finance leases are in the category of aircraft. The book value of these assets amount to	4 297	1 550
		The South African government has guaranteed repayment of R19 billion (2003: R16 billion) in loans.		
		23. PROVISIONS		
169	113	**Third party claims**	113	173
55	169	Balance at the beginning of the year	173	55
204	66	Additional provision	66	216
(90)	(122)	Provisions released/utilised	(126)	(98)
3	3	**Freight insurance**	3	3
13	3	Balance at the beginning of the year	3	13
7	–	Additional provisions	–	7
(17)	–	Utilised during the year	–	(17)
11	19	**Customer claims**	19	19
3	11	Balance at the beginning of the year	19	11
14	20	Additional provisions	12	24
(6)	(12)	Utilised during the year	(12)	(16)
1	1	**Restructuring**	1	1
62	1	Balance at the beginning of the year	1	140
(61)	–	Utilised during the year	–	(139)
621	704	**Leave pay**	925	828
553	621	Balance at the beginning of the year	828	711
205	264	Additional provisions	351	324
(137)	(181)	Utilised during the year	(254)	(207)
89	39	Provision for onerous contracts	39	89
10	42	Environmental rehabilitation and other	229	10

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		23. PROVISIONS (continued)		
904	**921**	Total provisions	**1 329**	1 123
428	**423**	***Less:* Short-term provisions classified as current liabilities**	**666**	543
102	**112**	Third party claims	**112**	106
3	**3**	Freight insurance	**3**	3
11	**19**	Customer claims	**19**	19
1	**1**	Restructuring	**1**	1
311	**288**	Leave pay	**396**	414
–	**–**	Other	**135**	–
476	**498**	Total long-term provisions	**663**	580

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

Freight insurance
The provision for excess claims for the transportation of goods. Costs relating to the settlement of claims are expected to be paid out in the following year.

Customer claims
Provision for claims made by customers in respect of claims arising from non-performance of contracts or damage to goods in transit. Costs relating to the settlement of claims are expected to be paid out in the following year.

Restructuring
Provision for costs of business units in the process of being restructured. It is intended that restructuring will occur in the next financial year.

Leave pay
Provision for unutilised leave at year-end. The leave is expected to be taken over the next two financial year-ends.

Onerous contracts
Provision for the maintenance and repairs of buildings and structures in terms of a lease agreement.

Environmental rehabilitation
Provision for environmental clean-up costs in terms of legislative requirements.

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		24. DEFERRED TAXATION		
		Analysis of major categories of temporary differences		
3 813	**5 968**	**– Deferred tax asset**	**9 439**	7 081
2 552	**2 666**	Provisions	**2 944**	3 103
713	**–**	Computed estimated tax loss	**2 775**	1 084
122	**61**	Lump sum pension fund contributions	**61**	122
–	**–**	Air traffic liability	**838**	712
135	**167**	Doubtful debts	**225**	193
291	**37**	Income received in advance	**108**	314
–	**636**	Capitalised lease liability	**653**	167
–	**994**	Impairment of investments	**54**	–
–	**–**	Section 24I foreign exchange adjustment	**273**	–
–	**1 407**	Derivatives	**1 444**	1 320
–	**–**	Maintenance reserve payments	**–**	66
–	**–**	Other	**64**	–
2 072	**3 166**	**– Deferred tax liability**	**3 152**	3 082
–	**52**	Deferred expenditure	**111**	58
2 072	**3 017**	Property, plant and equipment	**2 930**	3 005
–	**–**	Future expenditure allowance	**10**	19
–	**–**	Retention debtors	**5**	–
–	**97**	Undrawn funds	**96**	–
1 741	**2 802**	Net deferred tax asset	**6 287**	3 999
(1 741)	**(2 802)**	Deferred tax asset not raised	**(6 322)**	(3 920)
–	**–**	Deferred tax (liability)/asset balance	**(35)**	79
		The movement of deferred taxation account is as follows:		
–	**–**	Balance at the beginning of the year	**79**	(149)
–	**–**	Income statement charge (refer note 7)	**(14)**	208
–	**–**	Other	**(100)**	20
–	**–**	Balance at the end of the year	**(35)**	79
2 377	**–**	Calculated taxation losses available for set-off against future taxable income (refer note 7)	**9 250**	3 613

The Company and certain subsidiaries have not raised a deferred taxation asset in the current year. The probability of there being sufficient taxable profits against which the deferred tax asset can be utilised is uncertain as:

– the future state of the Company in terms of the government's planned restructuring of state owned enterprises has not been finalised; and

– the exposure of the Company to external factors, such as the demand for commodities. In addition, it is too early to predict with sufficient probability the profitable outcome of the Company's internal restructuring initiatives.

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		25. TRADE AND OTHER PAYABLES		
1 724	641	Trade payables	1 886	2 981
2 460	4 663	**Accruals**	10 461	8 137
–	–	Air traffic liability*	2 792	2 406
473	1 936	Accrued expenditure	4 273	2 995
26	25	Deposits received	17	55
42	22	Deferred income	72	82
–	–	Frequent flyer rewards programme	136	162
750	796	Interest	809	818
342	786	Personnel costs	1 151	686
583	608	Public creditors	650	628
114	319	Revenue received in advance	373	158
130	171	SARS – VAT	188	147
4 184	5 304		12 347	11 118
		26. SHORT-TERM BORROWINGS		
506	1 232	Current portion of long-term interest-bearing borrowings (refer note 22)	3 377	928
2 427	6 160	Other short-term borrowings	6 160	2 427
2 933	7 392		9 537	3 355
		Other short-term borrowings relate to the market making portfolio and comprises the Group's position on bonds and other financial instruments.		
		27. COMMITMENTS		
		27.1 Capital commitments		
55	76	Contracted for in US dollars	4 989	10 855
922	226	Contracted for in euros	226	922
75	17	Contracted for in British pounds	17	75
39	22	Other foreign currencies	22	39
9 214	1 496	Contracted for in SA rands	1 581	9 214
10 305	1 837	Total capital commitments contracted for	6 835	21 105
6 643	22 922	Authorised by the directors but not yet contracted for	23 195	8 520
16 948	24 759		30 030	29 625
		Total capital commitments are expected to be incurred as follows:		
4 435	5 385	Within one year	7 564	10 523
12 513	19 374	After one year, but not more than five years	22 466	19 102
16 948	24 759		30 030	29 625

** This balance represents the unrealised income resulting from tickets sold but not yet flown. The above balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and inter-line partners. This amount is not determinable.*

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		27. COMMITMENTS (continued)		
		27.1 Capital commitments (continued)		
		These capital commitments will be financed by the net cash flow from operations, capital market borrowings, joint ventures with strategic equity partners, through project finance and the use of operating leases.		
		These commitments relate to the following divisions and subsidiaries:		
10 385	14 531	Spoornet	14 531	10 385
1 226	907	South African Port Operations	907	1 226
643	3 764	Petronet	3 764	643
1	–	Freight Dynamics	–	1
4 149	4 782	National Port Authority	4 782	4 149
438	455	Transtel	455	438
–	150	Transwerk	150	–
79	–	Transnet Housing	–	79
22	128	Propnet	128	22
5	42	Holding Company/Group services	42	5
		SAA (Pty) Limited	4 913	10 799
		Protekon (Pty) Limited	8	–
		B 2 B Africa Holdings (Pty) Limited	3	25
		Viamax (Pty) Limited	347	1 853
16 948	24 759		30 030	29 625
		27.2 Operating lease commitments		
		Future minimum rentals under non-cancellable leases are as follows:		
		Aircraft		
–	–	Within one year	1 513	1 283
1	2	After one year, but not more than five years	6 316	3 575
–	–	More than five years	4 293	5 500
1	2		12 122	10 358
		Land, buildings and structures		
63	78	Within one year	88	142
218	281	After one year, but not more than five years	292	451
–	113	More than five years	118	4
281	472		498	597

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		27. COMMITMENTS (continued)		
		27.2 Operating lease commitments (continued)		
		Machinery, equipment, furniture and motor vehicles		
122	**56**	Within one year	**66**	134
377	**121**	After one year, but not more than five years	**129**	381
76	**13**	More than five years	**14**	76
575	**190**		**209**	591
		Security and maintenance contracts		
509	**698**	Within one year	**698**	534
1 063	**1 121**	After one year, but not more than five years	**1 121**	1 173
4	**1**	More than five years	**1**	4
1 576	**1 820**		**1 820**	1 711
		Other		
–	**46**	Within one year	**62**	–
–	**179**	After one year, but not more than five years	**181**	–
–	**1**	More than five years	**1**	–
–	**226**		**244**	–
		27.3 Finance lease commitments		
		The Group has leases classified as finance leases principally for aircraft.		
		Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:		
		Aircraft, machinery, equipment and furniture		
321	**467**	Within one year	**701**	653
1 104	**598**	After one year, but not more than five years	**1 126**	1 624
948	**788**	More than five years	**788**	1 503
2 373	**1 853**	Total minimum lease payments	**2 615**	3 780
(783)	**(581)**	Amount representing finance charges	**(581)**	(1 280)
1 590	**1 272**	Present value of minimum lease payments	**2 034**	2 500
		27.4 Lease rentals receivable		
		Future minimum rentals under operating leases are as follows:		
		Property		
143	**338**	Within one year	**338**	143
184	**959**	After one year, but not more than five years	**957**	184
194	**268**	More than five years	**268**	194
521	**1 565**	Present value of minimum lease payments	**1 563**	521
		Machinery, equipment and furniture		
127	**131**	Within one year	**131**	127
539	**553**	After one year, but not more than five years	**553**	539
–	**–**	More than five years	**–**	–
666	**684**	Present value of minimum lease payments	**684**	666

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		28. CONTINGENT LIABILITIES		
447	367	**Cameroon (Camair)** Camair instituted arbitration proceedings against Transnet on 30 November 2000 with the International Chamber of Commerce (ICC). Camair sought a rescission of the contracts for the maintenance of its aircraft by Transnet and a restitution of the sum of US$55,5 million it had paid under those contracts. On 18 September 2003, the Arbitration Tribunal of the ICC awarded Camair US$8,4 million, which amount has been fully provided for in the annual financial statements. The High Court of Justice, Queens Bench Division Commercial Court has however, ordered that the Arbitration Tribunal's award to Camair be remitted to the Arbitral Tribunal for the reconsideration of the quantification of the value of the services provided to Camair by Transnet.	367	447
–	–	**Aircraft** Under certain operating lease agreements, there is an obligation to return the aircraft in a specific condition. It is not practical to quantify the costs of restoration, if any, to the agreed condition at balance sheet date. **SAA contributions** SAA has a contingent liability in respect of contributions relating to the optional buyback of non-pensionable service. This liability cannot be reliably estimated. **Sunair (Pty) Limited** In a prior year the liquidators of Sunair and a previous shareholder instituted legal proceedings against SAA for alleged damages caused by SAA not acquiring Sunair (Pty) Limited. Any liability arising will only be known once the decision of the court has been made.	275	100
–	96	**Nationwide (Pty) Limited** The Competition Commission is investigating against SAA regarding a Nationwide (Pty) Limited complaint. The maximum penalty that SAA could be fined is up to 10% of the preceding year's total revenue.* **Comair Limited** The Competition Commission is investigating SAA regarding a Comair Limited complaint. The maximum penalty that SAA could be fined is up to 10% of the preceding years total revenue.* **Code share agreements, travel agent agreements, travel incentives and pricing policies** The Competition Commission is investigating certain aspects of SAA's code share agreements, travel agent agreements, travel incentives, and pricing policies. Should the Competition Tribunal elect to proceed against SAA, and is successful the maximum penalty per case is up to 10% of its preceding year's total revenue.* **SARCC** Pursuant to an action by Metrorail against SARCC in respect of a management fee, SARCC lodged a counter claim for R96 million. It is alleged, in respect of the counter claim, that Metrorail failed to comply with service levels as outlined in a management agreement entered into between the parties for the operation of railway services. A possible settlement is being negotiated.	96	–

** SAA is committed to defend all actions brought against it. (2003 turnover is R16 324 million).*

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		28. CONTINGENT LIABILITIES (continued)		
–	83	**Grinaker LTA and others** The claim arises from an agreement between NPA and a joint venture between Grinaker LTA, Interbeton and Bafokeng Civil Works for the construction of a quay wall at the Durban Port. It is claimed that Transnet delayed in clearing the seabed to enable construction to commence, as agreed, hence the claim for additional costs.	83	–
–	–	**SAA Pilots** SAA has a contingent liability in respect of an agreement reached with the pilots in terms of which SAA has accepted liability for the difference between the total cost of employment and the total amount to be paid by the pension fund. The liability is only due if pilots lose their licences on account of disability.	50	50
2 102	1 809	**Rolling stock** The future lease commitments in respect of rolling stock assets have been paid in full to an intermediary lessee. This amount has been deposited with an AAA-rated international institution for the redemption of the lease obligations. These obligations are guaranteed by the Company. No loss is expected to materialise in respect of this guarantee.	1 809	2 102
98	98	**Afro-Comp International (Pty) Limited** This is a claim against NPA, pertaining to an award of a contract for a computer software system. The claim is based on the alleged irregular process in awarding the tender.	98	98
–	71	**Maruba SCA** The claim arises from a collision between two vessels, (MV Decurion and MV Giovanna). It is alleged that NPA failed to furnish information to these vessels, which would have enabled the vessels to avoid the collision. As a result of the alleged failure by NPA, damages amounting to R70,5 million are being claimed.	71	–
–	–	**Employee share option scheme** SAA has guaranteed the funding of share incentive schemes based on the current value of the shares.	–	111
162	206	**Other** Various other contingent liabilities estimated where no material losses are expected to materialise from these contingencies	264	200
1 324	1 040	Various guarantees issued in the normal course of business	1 453	1 756

29. RETIREMENT BENEFIT OBLIGATION

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 different pension benefits and post retirement medical benefits:

29.1 Pension benefits

Transnet has three pension funds, namely Transnet Retirement Fund; Transnet Pension Fund and Transnet Second Defined Benefit Fund. Except for the Transnet Retirement Fund, the actuarial valuations for the funds were performed at 31 March 2004.

29.1.1 Transnet Retirement Fund

The fund was structured as a defined contribution fund from 1 December 2000. All employees of Transnet Limited are eligible members of the fund. There were 66 255 members (2003: 66 297) at 31 March 2004. Actuarial valuations are done at intervals not exceeding three years to determine the financial position. An actuarial valuation was performed as at 31 March 2003. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2004 amounted to R731 million (2003: R648 million).

29.1.2 Transnet Pension Fund

The fund is a closed defined benefit pension fund. Members are current employees of Transnet who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 10 316 members (2003: 11 590) at 31 March 2004. An actuarial valuation was done based on the attained age method since the projected unit credit method is considered unsuitable as the fund is a closed fund. The difference between the two methods relate to the required future contribution rate only. The principal actuarial assumptions used were as follows:

	Group 2004 R million	Group 2003 R million
Discount rate (%)	**9,75**	10,20
Salary increases (%)		
Inflation (%)	**5,25**	5,70
Promotional (%)	**1,50**	1,50
Pension increases (%)		
First three years (%)	**2,00**	2,00
After three years (%)	**2,00**	2,00
The results of the actuarial valuation are as follows:		
Benefit asset		
Present value of obligation	**(4 096)**	(3 407)
Fair value of plan assets	**4 069**	3 055
Deficit	**(27)**	(352)
Unrecognised actuarial loss	**255**	609
Net asset	**228**	257

In 2003/4, as in previous financial years, the actuarial surplus was not recognised as it was not known who would eventually benefit from it.

	Group	
	2004 R million	2003 R million
29. RETIREMENT BENEFIT OBLIGATION (continued)		
29.1.2 Transnet Pension Fund (continued)		
Charge to the income statement		
Contribution by the Company	**91**	59
Reconciliation of movement in net asset		
Net asset at the beginning of the year	**257**	204
Current service cost	**(148)**	(123)
Interest cost	**(348)**	(394)
Interest return	**312**	430
Contribution by the Company charged to the income statement	**91**	59
Contribution by members	**64**	81
Net assets at the end of the year	**228**	257

29.1.3 Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of the retired members and qualifying beneficiaries. There were 48 068 members (2003: 52 904) at 31 March 2004.

This figure excludes widows and children of pensioners. The all inclusive membership figure is 90 798. The actuarial valuation was based on the Projected Unit Credit method. The principal actuarial assumptions used are as follows:

	2004	2003
Discount rate		
Period to May 2005 (%)	**10,75**	11,20
Next five years (%)	**10,25**	10,70
Remaining years thereafter (%)	**9,75**	10,20
Pension increases (%)	**2,00**	2,00

A liability of R5 127 million (2003: R4 535 million) is recognised in the financial statements (refer note 21).

The results of the actuarial valuation are as follows:

	2004	2003
Benefit liability		
Present value of obligation	**(18 537)**	(18 522)
Fair value of plan assets	**15 095**	13 239
Deficit	**(3 442)**	(5 283)
Unrecognised actuarial loss/(gain)	**(1 685)**	748
Liability recognised in the balance sheet	**(5 127)**	(4 535)

No actuarial gains/losses have been recognised as they are less than 10% of the present value of the obligations.

	2004	2003
Charge to the income statement		
Interest charge	**(2 075)**	(2 697)
Return on plan assets	**1 483**	2 279
	(592)	(418)

	Group 2004 R million	Group 2003 R million
29. RETIREMENT BENEFIT OBLIGATION (continued)		
29.1.3 Transnet Second Defined Benefit Fund (continued)		
Movement in net liability		
Opening net liability	**(4 535)**	(4 117)
Income statement charge	**(592)**	(418)
Net liability at end of year	**(5 127)**	(4 535)

Management is in the process of defining how to fund the shortfall as required by the rules of the fund.

29.1.4 Top management pensions and Workmen's Compensation Act pensioners

These are additional benefits to top up pensions received to eliminate the effects of any early retirement penalties applied under the Group's existing pension fund schemes to top management. There were 499 members (2003: 505) at 31 March 2004.

The Workmen's Compensation Act benefit relates to the pension benefits that the Company pays to current and former employees who were disabled whilst in service prior to the corporation of Transnet in 1990. There were 2 098 members (2003: 2 288) at 31 March 2004.

Actuarial valuations for both benefits were performed to determine the present value of the obligations. Similar valuations were done at the previous balance sheet date. The projected unit credit method was used to value the obligations. There are no plan assets held to fund these obligations.

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

Top management benefit

The principal assumptions in determining the benefits are as follows:

	2004	2003
Discount rate (%)	**9,75**	10,20
Salary increases (%)		
Inflation (%)	**5,25**	5,70
Promotion (%)	**1,50**	1,50
Pension increase (%)	**2,00**	5,00
Benefit liability		
Present value of obligations	**(99)**	(123)
Unrecognised actuarial (gain)/loss	**(18)**	10
Liability recognised in the balance sheet (refer note 21)	**(117)**	(113)
Income statement charge		
Interest cost	**13**	12
Actuarial loss recognised	**–**	1
	13	13

	Group	
	2004 R million	2003 R million
29. RETIREMENT BENEFIT OBLIGATION (continued)		
29.1.4 Top management pensions and Workmen's Compensation Act pensioners (continued)		
Movement in net liability		
Opening net liability	**(113)**	(109)
Income statement charge	**(13)**	(13)
Contributions paid	**9**	9
Benefit liability at year-end	**(117)**	(113)
Workmen's compensation benefit		
The principal assumptions in determining the benefits are as follows:		
Discount rate (%)	**9,75**	10,20
Pension increase (%)	**5,25**	8,70
Benefit liability		
Present value of obligations	**(204)**	(211)
Unrecognised actuarial gain	**(27)**	(13)
Liability recognised in the balance sheet (refer note 21)	**(231)**	(224)
Income statement charge		
Interest cost	**22**	28
	22	28
Movement in net liability		
Opening net liability	**(224)**	(211)
Income statement charge	**(22)**	(28)
Contributions paid	**15**	15
Benefit liability at year-end	**(231)**	(224)

29.1.5 Black widows' pension benefit

The benefit relates to pensions that the Group has voluntarily elected to make payable to the widows of black pensioners who retired from Transnet during the period 16 December 1974 to 1 April 1986 and who subsequently died prior to 1 November 2000 and whose spouses are currently not entitled to a spouse's pension from either the Transnet Pension Fund or the Transnet Second Defined Benefit Fund.

A liability was recognised for the first time in the prior year based on the number of 3 715 approved black widows and an actuarially valued entitlement of R23 000 per pensioner to fund a monthly pension of R206 per month.

	2004 R million	2003 R million
Benefit liability		
Liability at the beginning of the year	**(23)**	(85)
Settlement during the year	**7**	62
Liability at the end of the year (refer note 21)	**(16)**	(23)

	Group 2004 R million	Group 2003 R million
29. RETIREMENT BENEFIT OBLIGATION (continued)		
29.1.6 Flight deck crew (FDC)		
The liability relates to additional benefits to members of FDC, who are employees of SAA (Pty) Limited. These additional pension benefits are required to equate to the increases that would have been applied to the total cost of employment for the years commencing 16 March 1999 to 16 March 2000. This liability was recognised for the first time in the prior year.		
Benefit liability		
Balance at the beginning of the year	(49)	(55)
Raised during the year	–	–
Settlement during the year	44	6
Balance at the end of the year (refer note 21)	(5)	(49)

29.2 Post-retirement medical benefits

29.2.1 SATS pensioners' post-retirement medical benefits

Pensioners include retired employees and the widow(er)s of employees and the retired employees of the former South African Transport Services (SATS). The liability is in respect of pensioners who have elected to belong to the Transnet in-house medical scheme, Transmed, whose membership is voluntary.

A medical aid benefit liability was created at the corporatisation of Transnet. With effect from 1 April 2000 the liability has been actuarially valued on an annual basis. Actual benefits contributed on behalf of the pensioners are settled against the provision.

29.2.2 Transnet employees post-retirement medical benefits

This includes the current and past employees of Transnet who are members of Transnet's in-house medical aid, Transmed Medical Fund. Membership is voluntary.

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

To enable the Company to fully provide for such post-retirement medical liabilities, since April 2000 actuarial valuations are obtained annually. There are no assets held to fund the obligation.

29.2.3 Analysis of benefit expense

The following table summarises the components of net benefit expense recognised in both the income statement and balance sheet as at 31 March 2004 for both SATS pensioners and Transnet employees.

	2004	2003
SATS pensioners		
Discount rate (%)	9,00	10,20
Medical aid inflation (%)	10,00	11,00

The project unit credit method has been used for the purposes of determining the actuarial valuation.

	Group	
	2004 R million	2003 R million
29. RETIREMENT BENEFIT OBLIGATION (continued)		
29.2.3 Analysis of benefit expense (continued)		
Benefit liability		
Present value of obligations	**(1 751)**	(1 715)
Fair value of plan assets	**–**	–
Unfunded benefit obligation	**(1 751)**	(1 715)
Unrecognised actuarial losses	**382**	135
Liability recognised in the balance sheet (refer note 21)	**(1 369)**	(1 580)
Net benefit expenses		
Interest on accrued liability	**175**	371
Past service cost – vested benefit	**–**	(1 514)
	175	(1 143)
Movement in net liability		
Opening liability	**(1 580)**	(3 109)
Expense/(benefit) to income statement	**(175)**	1 143
Company contribution	**386**	386
Benefit liability at year-end	**(1 369)**	(1 580)
Transnet employees		
Discount rate (%)	**9,00**	10,20
Medical aid inflation (%)	**10,00**	11,00
The project unit credit method has been used for the purposes of determining the actuarial valuation.		
Benefit liability		
Present value of obligations	**(741)**	(545)
Fair value of plan assets	**–**	–
Unfunded benefit obligation	**(741)**	(545)
Unrecognised actuarial gains	**(4)**	(180)
Liability recognised in the balance sheet (refer note 21)	**(745)**	(725)
Net benefit expenses		
Current service cost	**12**	10
Actuarial gain recognised	**(10)**	(10)
Interest on accrued liability	**56**	65
	58	65
Movement in net liability		
Opening liability	**(725)**	(700)
Expense to income statement	**(58)**	(65)
Company contribution	**38**	40
Benefit liability at year-end	**(745)**	(725)

29. RETIREMENT BENEFIT OBLIGATION (continued)

29.3 Equity compensation benefits

South African Airways (Pty) Limited (SAA), a subsidiary of Transnet Limited, operates via the SAA (Pty) Limited Employee Share Trust, three share incentive schemes, namely the FDC Share Scheme, the Share Incentive Scheme and the Employee Share Ownership Programme. These schemes were created for the benefit of the employees of SAA. The share options are over 156 336 120 E class shares of SAA.

Specific details of each scheme are as follows:

(a) FDC Share Scheme

The FDC Share Scheme was created for the flight deck crew members (FDC). Transnet Limited allotted 40 150 000 E class shares of SAA to this scheme, with a par value of R1,00 at a cost of 0,01 cent per share. Transnet Limited sold 38 720 900 shares to SAA pilots who paid 0,01 cent per share. The balance of 1 429 100 shares remain with the trust. In terms of the rules of this scheme, the members have an option, during an annual sale period, to sell their shares to the trust at the most recent market value as established by an independent valuer party appointed by the trustees. Only a third of the shares may be sold to the trust during the annual sale period which commences in August of each year. SAA is required to advance funds on loan to the trust to enable it to buy back the shares from the members.

At 31 March 2004, due to a delay in the announcement of the share value, nil shares were sold back to the trust, compared to 25 787 839 shares traded back to the trust in the previous year.

(b) Share Incentive Scheme

SAA operates a share incentive scheme for certain individuals of SAA. Through this, 58 018 060 E class shares were sold on a loan account by Transnet Limited to the SAA (Pty) Limited Employee Share Trust at par value of R1,00 per share. Initially, 27 million shares were approved and allocated to certain individuals in management in terms of the share incentive scheme.

As these managers were entitled to these share options since inception of the scheme, special dispensation was granted by the SAA Board allowing these managers to trade their vested shares in retrospect at the historic trading values. Employees participate in the scheme only if and to the extent that an option to purchase an incentive share is granted under the terms of their employment contract. Management may exercise their options as soon as they vest, which takes place over a five-year period.

From this scheme, 10 157 540 shares were allocated to the ESOP scheme (refer (c) below) to cover a shortfall in the number of shares allotted to that scheme.

For the year ended 31 March 2004, 18 396 406 shares had vested and were sold back to the trust. 4 534 750 shares were traded at R2,10 per share, compared to 4 000 000 traded in the previous year.

(c) Employee Share Ownership Programme

SAA operates an employee share ownership programme for all eligible employees of SAA. Through this, 58 018 060 E class shares were sold on a loan account by Transnet Limited to the SAA (Pty) Limited Employee Share Trust at par value of R1,00 per share.

In terms of the rules of the programme, SAA granted a loan to the SAA (Pty) Limited Employee Share Trust which enabled the Trust to acquire the shares from Transnet Limited and reacquire the shares exercised by the employees under the programme.

Employees who were employed by SAA on 1 April 1999 and who were still in the employment of SAA on 1 March 2001 were granted the option to purchase shares at R1,00 per share. The options vest over a three-year period. An additional 10 157 540 shares were allocated from the Share incentive scheme, as mentioned above.

At 31 March 2004, due to a delay in the announcement of the share value, nil shares were sold back to the trust, compared to 15 518 300 sold back in the previous year.

30. RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The following related parties have been identified:
The South African government and all entities controlled by it, subsidiaries, directors and associates. Related-party transactions are concluded on an arm's length basis. Details of material transactions and outstanding balances are dealt with as follows:

Shareholder

The sole shareholder is the South African government. The Company is not required to disclose the details of transactions with State controlled entities in terms of the South African Statement of Generally Accepted Accounting Practice – AC 126, Related Parties.

Subsidiaries

Details of investments in subsidiaries are disclosed in note 11 and Annexure C.

Directors

The directors' names are disclosed in Annexure D whilst their emoluments are disclosed in the directors' report. The directors' loans are disclosed in note 10.

R1,3 million was paid for services rendered during the year to KPMG Inc., a company in which one of the directors has an interest.

Associates

Details of income from associates and investments in associates are disclosed in the income statement and in note 12.

31. SEGMENTAL ANALYSIS

Based on risk and returns the directors consider that the primary reporting format is by business segment. The Group is organised into different business units.

These business units are the basis on which the Group reports its primary segment information. The secondary reporting format is by geographic analysis and directors consider that, with the exception of Aviation there is only one geographic segment being the Republic of South Africa.

	Group		Rail		Maritime	
	2004 Rm	2003 Rm	2004 Rm	2003 Rm	2004 Rm	2003 Rm
External turnover	43 637	41 278	15 770	13 901	7 158	6 125
Internal turnover			2 406	1 759	354	290
Total turnover	43 637	41 278	18 176	15 660	7 512	6 415
Net operating expenses	(43 450)	(36 190)	(17 754)	(14 798)	(4 216)	(3 990)
Profit/(loss) from operations before net finance costs	187	5 088	422	862	3 296	2 425
Net finance cost	(2 211)	(2 637)	(804)	(680)	(916)	(1 012)
(Loss)/profit before other income and fair value adjustments	(2 024)	2 451	(382)	182	2 380	1 413
Other income	342	3 799	105	462	39	72
Fair value (loss)/gain	(4 529)	(7 074)	(34)	–	(20)	–
Income from associates	92	199	–	–	–	–
(Loss)/profit before taxation	(6 119)	(625)	(311)	644	2 399	1 485
Taxation	(204)	(16)	–	–	–	–
(Loss)/profit after taxation	(6 323)	(641)	(311)	644	2 399	1 485
Minority interests	(9)	220	–	–	–	–
(Loss)/profit for the year	(6 332)	(421)	(311)	644	2 399	1 485
Other information						
Operating assets	71 681	67 845	18 747	17 790	16 223	15 007
Investments in associates	1 019	921	21	14	22	–
Consolidated total assets	72 700	68 766	18 768	17 804	16 245	15 007
Operating liabilities	37 805	24 627	7 298	3 121	2 735	1 550
Consolidated operating liabilities	37 805	24 627	7 298	3 121	2 735	1 550
Capital expenditure	7 820	10 646	1 580	1 200	1 589	1 659
Significant non-cash items						
Depreciation and amortisation	2 600	2 258	678	683	620	560
Impairment	4 209	493	–	–	18	419
Fair value adjustments	2 586	6 009	978	–	285	–
Increase/(decrease) in long-term provision for leave pay	115	(64)	73	34	5	3
Number of employees	84 339	79 660	50 259	48 288	9 044	9 331

Pipeline		Aviation		Road		Property		Other operations*	
2004 Rm	2003 Rm	**2004 Rm**	2003 Rm	**2004 Rm**	2003 Rm	**2004 Rm**	2003 Rm	**2004 Rm**	2003 Rm
918	759	**17 106**	17 085	**1 315**	1 372	**142**	123	**1 228**	1 913
1	–	**–**	–	**523**	489	**95**	78	**(3 379)**	(2 616)
919	759	**17 106**	17 085	**1 838**	1 861	**237**	201	**(2 151)**	(703)
(409)	(378)	**(20 883)**	(17 595)	**(1 657)**	(1 717)	**(330)**	(262)	**1 799**	2 550
510	381	**(3 777)**	(510)	**181**	144	**(93)**	(61)	**(352)**	1 847
(293)	(292)	**(782)**	(380)	**(116)**	(189)	**(19)**	(19)	**719**	(65)
217	89	**(4 559)**	(890)	**65**	(45)	**(112)**	(80)	**367**	1 782
22	31	**138**	1 091	**20**	86	**25**	63	**(7)**	1 994
–	–	**(4 488)**	(6 472)	**–**	–	**–**	–	**13**	(602)
–	–	**–**	–	**6**	9	**–**	–	**86**	190
239	120	**(8 909)**	(6 271)	**91**	50	**(87)**	(17)	**459**	3 364
–	–	**39**	224	**(45)**	(46)	**–**	–	**(198)**	(194)
239	120	**(8 870)**	(6 047)	**46**	4	**(87)**	(17)	**261**	3 170
–	–	**10**	2	**(18)**	19	**–**	–	**(1)**	199
239	120	**(8 860)**	(6 045)	**28**	23	**(87)**	(17)	**260**	3 369
3 573	3 438	**17 854**	16 637	**1 623**	1 440	**860**	867	**12 801**	12 666
–	–	**1**	3	**2**	1	**5**		**968**	903
3 573	3 438	**17 855**	16 640	**1 625**	1 441	**865**	867	**13 769**	13 569
160	328	**15 423**	12 986	**447**	370	**127**	328	**11 615**	5 944
160	328	**15 423**	12 986	**447**	370	**127**	328	**11 615**	5 944
83	386	**4 015**	6 650	**355**	401	**92**	163	**106**	187
157	158	**847**	485	**231**	217	**9**	9	**58**	146
–	–	**3 514**	60	**–**	–	**134**	30	**543**	(16)
–	–	**4 405**	6 472	**–**	–	**–**	–	**(3 082)**	(463)
1	3	**6**	9	**5**	5	**4**	–	**21**	(118)
568	571	**13 084**	11 304	**2 570**	2 697	**304**	1 114	**8 510**	6 355

* *Other operations incorporates all other business units plus Company/Group adjustments, reclassifications and eliminations.*

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		32. CASH FLOW INFORMATION		
5 346	**5 938**	**32.1 Cash generated from operations**	**6 917**	7 178
5 176	**(6 207)**	(Loss)/profit before tax	**(6 119)**	(625)
2 309	**1 864**	Interest paid	**2 361**	2 654
(1 140)	**(854)**	Investment income	**(346)**	(992)
(999)	**11 135**	Elimination of non-cash items	**11 021**	6 141
1 577	**1 608**	– Depreciation and amortisation	**2 600**	2 258
–	**–**	– Loss on revaluation of listed shares to market value	**–**	21
(619)	**860**	– Increase/(decrease) in provision for retirement obligation	**860**	(619)
827	**8 096**	– Impairment in carrying value of investments	**1**	140
–	**–**	– Impairment in carrying value of intangible assets	**12**	–
433	**694**	– Impairment of property, plant and equipment	**4 027**	493
–	**–**	– Impairment of trade and other receivables	**182**	–
(70)	**22**	– Movement in long-term provision	**83**	8
–	**–**	– Income from associates	**(92)**	(199)
(87)	**2**	– Profit on sale of subsidiaries (refer note 32.4)	**7**	(23)
(548)	**(438)**	– Net forex (gain)/loss and derivative fair value adjustment	**2 773**	6 009
(56)	**131**	– Loss/(profit) on sale of property, plant and equipment	**408**	(146)
–	**–**	– Loss on sale of unlisted investments	**–**	21
(66)	**(13)**	– Profit on sale of intangible assets	**(13)**	(66)
(2 448)	**–**	– Profit on sale of associate/other	**–**	(1 814)
58	**173**	– Amortisation of discount on bonds	**173**	58
1 348	**1 377**	**32.2 Changes in working capital**	**580**	1 625
(101)	**(129)**	Increase in inventories	**(155)**	(132)
1 686	**391**	Decrease/(increase) in receivables	**(617)**	1 847
(436)	**1 120**	Increase/(decrease) in payables	**1 229**	(186)
199	**(5)**	(Decrease)/increase in short-term provisions	**123**	96

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		32. CASH FLOW INFORMATION (continued)		
		32.3 Taxation paid		
		Balance at beginning of year		
–	–	– normal taxation (net)	(5)	(30)
–	–	– deferred taxation	79	(149)
		Taxation as per income statements		
–	(130)	– normal taxation	(190)	(40)
–	–	– deferred taxation	(14)	208
(183)	–	– STC	–	(184)
		Disposal of subsidiaries		
–	–	– normal taxation	–	7
–	–	– deferred taxation	–	3
		Balance at end of year		
–	130	– normal taxation (net)	164	5
–	–	– deferred taxation	35	(79)
–	–	Other deferred taxation movement	(100)	-
(183)	–		(31)	(259)

32.4 Disposal and acquisition of subsidiaries and associates

Included in the proceeds on disposal are:

Proceeds on disposal of all of the Group's shareholding in Fleetcall (Pty) Limited. (51% of interest held in Apron Services was disposed of in the previous financial year.)

Company 2003 R million	Company 2004 R million		Group 2004 R million	Group 2003 R million
		32. CASH FLOW INFORMATION (continued)		
		32.4 Disposal and acquisition of subsidiaries and associates (continued)		
		Included in the fair value of the assets and liabilities disposed of are the following:		
–	1	Cash and cash equivalents	1	23
–	–	Inventory	–	1
–	2	Accounts receivable and prepayments	2	56
–	11	Property, plant and equipment	11	111
–	–	Intangible asset	–	100
43	–	Investment in subsidiary (includes indebtedness to Group)	–	–
–	(4)	Trade payables and provisions	(4)	(56)
–	(1)	Short-term loans	(1)	39
–	–	Taxation	–	(7)
–	–	Deferred taxation	–	(3)
–	–	Long-term liabilities	–	(149)
43	9	Net asset value	9	115
–	–	Inter-company transaction reversal	–	(29)
43	9	Net asset value after inter-company transaction reversal	9	86
22	9	*Cost of disposal*	9	86
22	–	Investment at cost	–	86
–	9	Loans made to investees	9	–
109	7	*Sale price: made up as follows:*	2	109
118	7	– Proceeds	7	118
–	–	– Post-acquisition reserves	(5)	–
(33)	–	– Provision for post-acquisition losses in Transnet's books	–	(33)
24	–	Shares in V&A Holdings (Pty) Limited	–	24
87	(2)	Profit on disposal of investments in subsidiaries	(7)	23
115	–	Cash paid for additional shares in V&A Holdings (Pty) Limited	–	115

Company 2003 R million	Company 2004 R million		Notes	Group 2004 R million	Group 2003 R million
		33. HEADLINE EARNINGS/(LOSS)			
4 993	**(6 337)**	(Loss)/profit for the year		**(6 332)**	(421)
–	**–**	Amortisation of goodwill (refer note 3)		**(52)**	(3)
(56)	**131**	Loss /(profit) on disposal of property, plant and equipment (refer note 2)		**408**	(146)
(66)	**(13)**	Profit on disposal of intangible assets (refer note 2)		**(13)**	(66)
(3 475)	**2**	Loss/(profit) on sale of interests in subsidiaries, associates and divisions (refer note 5)		**7**	(2 828)
433	**694**	Impairment of assets (refer note 2)		**4 221**	493
827	**8 096**	Impairment provision for loss-making subsidiaries (refer note 3)		**1**	140
2 656	**2 573**	Headline earnings/(loss)		**(1 760)**	(2 831)

INTRODUCTION

The Group has a risk management and central treasury function that manages the financial risks relating to the Group's operations. The Group's liquidity, credit, foreign exchange, interest rate and price risks are being monitored continually. Approved policies exist for managing these risks.

RISK PROFILE

In the course of the Group's business operations it is exposed to liquidity, credit, foreign exchange, interest rate and price risk. The risk management policy of the Group relating to each of these risks is discussed under headings below.

FINANCIAL RISK MANAGEMENT

The Board of directors has mandated Transnet Treasury to optimally fund the Group and to manage the financial risks of the Group within a Board approved risk management framework on a centralised basis.

Senior Treasury management and the Chief Financial Officer meet on a regular basis to determine financial risk management strategies (liquidity, interest, currency and counterparty risk) and to review compliance with approved policies. Treasury activities and the Group financial risk positions are reported at the scheduled meetings of the Transnet Board.

In accordance with the current restructuring process of the Transnet Group, the Board has decided to allow certain subsidiaries to accept responsibility and accountability in respect of their financial risk management activities provided the subsidiary can demonstrate financial control measures are in place. To date only SAA (Pty) Limited has taken responsibility for some aspects of their Treasury function.

Balances presented below reflect the position of both Transnet Limited as well as the Transnet Group unless otherwise specified.

FUNDING ACTIVITIES

Rand interest rate risk

The challenge is to manage the Group's average interest rates on fixed interest rate rand bonds in such a manner that they follow the long-term rand interest rate trend as closely as possible during the downward phase of the interest rate cycle and to keep the Group's effective interest rate below the average market rate during the upward phase of interest cycles.

TRANSNET RAND BONDS

Domestic rand bonds

Transnet Limited issues domestic bonds listed on the Bond Exchange of South Africa. The following Rand bonds, excluding market-making positions, which are separately analysed, were in issue at 31 March 2004.

Bond	Redemption date	Coupon rate %	Effective yield to redemption %	2004 Fair value R million	2004 Nominal value R million	2003 Fair value R million	2003 Nominal value R million
T004*	1/Apr/2008	7.50	14.93	4 310	4 662	4 804	5 484
T011*	1/Apr/2010	16.50	14.73	1 721	1 325	2 126	1 656
T017*	15/Mar/2006	12.00	12.28	2 309	2 181	2 780	2 727
			A	8 340	8 168	9 710	9 867

** These domestic rand bonds are for both Company and Group*

The reduction in the nominal value of the bonds held is due to the designation of a portion of the bonds as held for trade in order to comply with the requirements of AC 133.

Eurorand bonds

The following Eurorand Bonds were in issue at 31 March 2004:

Bond	Redemption date	Coupon rate %	Effective yield to redemption %	2004 Fair value R million	2004 Nominal value R million	2003 Fair value R million	2003 Nominal value R million
Euro 42	18/Apr/2028	13.50	13.87	2 863	2 000	2 884	2 000
Euro 42A	30/Mar/2029	10.00	15.09	1 491	1 500	1 650	1 500
			B	4 354	3 500	4 534	3 500
Group and Company bonds at nominal value (refer note 22)				(A & B)	11 668		13 367

OTHER RAND BORROWINGS

	2004 Fair value R million	2004 Company nominal R million	2004 Group nominal R million	2003 Fair value R million	2003 Company nominal R million	2003 Group nominal R million
Other Rand denominated liabilities*	–	54	1 824	–	21	26
Secured Rand denominated capital finance leases*	–	878	2 834	–	687	3 637
Other short-term borrowings**	2 861	2 601	2 601	–	–	111
Coupon stock**	3 299	3 299	3 299	780	767	767
Domestic Rand loans	6 160	6 832	10 558	780	1 475	4 541
Total domestic borrowings	–	18 500	22 226	–	14 842	17 908

* *Refer note 22*
** *Disclosed as short-term borrowings (note 26)*

Transnet Limited is an issuer of commercial paper (trade named coupon stock) that is actively traded on the money market. Short-term liquidity requirements are managed through the issue of coupon stock whilst short-term excess funds are invested in money market instruments.

Interest rate swaps with a notional value of R550 million (2003: R747 million) and with a fair value of positive R23 million (2003: R49 million positive) were open at 31 March 2004. During the financial year a gain of R23 million was recognised in the income statement comprising cash of R3 million and fair value gains of R20 million. R550 million of these swaps were done to switch part of the T004 borrowings from fixed to floating.

After accounting for the above interest rate swaps, the interest rate exposure on the long-term domestic borrowings as at 31 March 2004 was:

	Total borrowings R million	Floating exposure R million	Floating rate exposure as % of total	Fixed borrowings R million
31 March 2004				
Company	12 372	550	4,45	11 822
Group	15 869	1 412	8,90	14 457
31 March 2003				
Company	14 160	567	4,00	13 593
Group	15 341	568	3,70	14 773

DOMESTIC INVESTMENTS

2004 Company R million	2004 Fair value R million	2004 Group R million	2004 Fair value R million
1 059	1 110	1 515	1 566

2003 Company R million	2003 Fair value R million	2003 Group R million	2003 Fair value R million
1 782	1 896	1 822	1 947

FOREIGN CURRENCY EXPOSURES

Currency risk arises from exposures to foreign currencies when the value of the rand changes in relation to these currencies. Forward exchange contracts, currency options and cross-currency swaps are utilised to hedge foreign currency exposures against exchange rate fluctuations.

Details of significant foreign currency exposures in respect of borrowings at 31 March 2004 are as follows:

FORWARD EXCHANGE CONTRACTS USED AS HEDGES

Description	Currency amount	Fair value R million	Maturity date 2005	2006	2007	2008
Company						
US Dollars	53	(92)	(90)	(2)	0	0
Japanese Yen	1 922	(58)	(11)	(11)	(12)	(24)
Euro	(39)	(48)	(40)	(7)	(1)	0
		(198)	**(141)**	**(20)**	**(13)**	**(24)**
Group						
US Dollars	1 125	(4 084)	(1 599)	(869)	(353)	(1 263)
Japanese Yen	1 922	(58)	(11)	(11)	(12)	(24)
Euro	(39)	(48)	(40)	(7)	(1)	0
		(4 190)	**(1 650)**	**(887)**	**(366)**	**(1,287)**

FOREIGN CURRENCY EXPOSURES AND COVER

Currency	Total borrowings (foreign currency) million	Exposures for future expenditure million	Total exposure million	Total cover million	Investments and cash allocated million	Uncovered exposure million
Company						
US Dollars	93	3	96	146	2	(52)
Japanese Yen	1 773	2	1 775	1 775	–	–
Euro	105	39	144	144	–	–
Total exposure in Rands	**1 556***					
Transnet Group						
US Dollars	891	2 789	3 680	1 706	25	1 946
Japanese Yen	1 773	2	1 775	1 775	–	–
Euro	105	39	144	144	11	(11)
Total exposure in Rands	**6 840***					

** Refer liquidity risk below*

The largest portion of the remaining US dollar exposure relates to the foreign exchange contracts on the upgrading of the SAA fleet. These foreign exchange contracts were settled as at 30 June 2004.

FOREIGN CURRENCY INTEREST RATE RISK

Foreign currency interest rate swaps and cross-currency swaps are utilised to hedge foreign currency interest rate risks.

The following were significant positions at 31 March 2004.

	Fair value R million 2004	Notional amount currency million 2004	Fair value R million 2003	Notional amount currency million 2003
Company				
Interest Rate Swaps				
US Dollars	–	–	–	–
* Rand	(84)	687	(74)	788
Cross-currency Swaps				
US Dollar – Rand	(197)	204	(146)	441
Euro – Rand	(273)	105	–	–
Group				
Interest Rate Swaps				
US Dollars	–	–	–	–
* Rand	(84)	687	(74)	788
Cross-currency Swaps				
US Dollar – Rand	(1 517)	496	(37)	327
Euro – Rand	(273)	105	–	–

The foreign currency interest rate exposures after the interest rate and cross-currency swaps on 31 March 2004 are presented in the table below:

Currency	Total borrowings R million	Floating borrowings R million	Fixed borrowings R million
Company			
US Dollars	615	48	567
Euro	841	421	420
Japanese Yen	110	–	110
Total**	1 566	469	1 097
	100%	30%	70%
Group			
US Dollars	5 202	4 406	796
* Rand	687	–	687
Euro	841	421	420
Japanese Yen	110	–	110
Total**	6 840	4 827	2 013
	100%	71%	29%

** Rand: US Dollar exposure of which the interest rate risk is hedged with Rand interest rate swaps*

*** Refer to liquidity risk*

FOREIGN CURRENCY INVESTMENTS

At year-end the Group had foreign currency investments of R456 million (2003: R843 million). These amounts reflect the short-term portion of defeasance deposits (Refer domestic investments above).

MARKET MAKING IN TRANSNET BONDS

Transnet Limited makes a market in its own domestic bond issues, hence being the buyer and seller of last resort. Government, Public Corporation and Corporate bonds listed on the Bond Exchange of South Africa, bond options, domestic interest rate swaps, domestic money market instruments and buy and sell back financial instruments are utilised to hedge the resulting interest rate and liquidity risks.

The resulting basis risk is computed on a rand per point per million basis expressed in terms of a weighted average T011 nominal exposure. On 31 March 2004 this exposure amounted to a net short nominal position of R1,4 million (2003: R17,8 million short).

The following significant positions were held at year-end.

	2004 Fair value R million	2003 Fair value R million
Short positions in listed bonds		
Bonds	1 704	772
Sell and buy back financial instruments	554	762
Short positions at all in price	2 258	1 534
less accrued interest	260	(667)
Short positions at clean price*	2 518	867
Long positions in listed bonds		
Bonds	23	1 393
Sell and buy back financial instruments	816	761
Long positions at all in price	839	2 154
less accrued interest	51	(422)
Long positions at clean price**	890	1 732

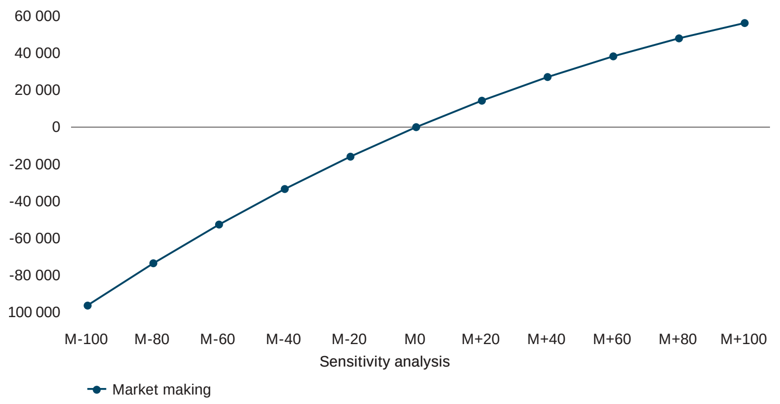
* *The carrying value of the short position is R2 518 million (included in Rand borrowings above)*
** *The carrying value of the long position is R890 million (included in domestic investments above)*

No collateral is held against buy and sell back transactions.

Coupon stock of R3 299 million nominal value (2003: R485 million), with a fair value of R3 299 million (2003: R488 million) was in issue at 31 March 2004.

The market making risk profile at 31 March 2004, measured against a 1% movement in bond rates is reflected below.

Market making risk profile



LIQUIDITY RISK

Liquidity risk is managed to ensure that the Group is able to meet its financial obligations as they fall due on a cost-effective basis by utilising the money market and by arranging facilities with banks, whilst still ensuring Transnet's ability to attract funds over the long term. Market making in Transnet bonds is undertaken to enhance the tradability and hence minimise the liquidity risk within established cost and risk parameters.

The following is a summary of long-term borrowings by currency and redemption:

	Total	Repayable during the financial year ended 31 March				
	2004 R million	2005 R million	2006 R million	2007 R million	2008 R million	2009 onwards R million
Company						
US Dollars	**615**	141	276	41	43	114
Euro	**841**	841	–	–	–	–
Japanese Yen	**110**	22	22	11	33	22
Total foreign currencies	**1 566**	1 004	298	52	76	136
Total SA Rand	**11 120**	228	2 190	4	3 647	5 051
Total interest-bearing borrowings	**12 686**	1 232	2 488	56	3 723	5 187
Less: Current portion of borrowings	**(1 232)**	(1 232)	–	–	–	–
Total long-term interest-bearing borrowings	**11 454**	–	2 488	56	3 723	5 187
Redemption period as percentage of total (%)	**100**	–	22	–	33	45
Group						
US Dollars	**5 889**	2 056	764	444	428	2 197
Euro	**841**	841	–	–	–	–
Japanese Yen	**110**	22	22	11	33	22
Total foreign currencies	**6 840**	2 919	786	455	461	2 219
Total SA Rand	**14 846**	458	2 824	186	4 573	6 805
Total interest-bearing borrowings	**21 686**	3 377	3 610	641	5 034	9 024
Less: Current portion of borrowings	**(3 377)**	(3 377)	–	–	–	–
Total long-term interest-bearing borrowings	**18 309**	–	3 610	641	5 034	9 024
Redemption period as percentage of total (%)	**100**	–	20	4	27	49
Additional expenditure expressed in USD						
Operating lease payments*	**5 155**	825	730	757	695	2 148
Projected Airbus expenditure	**9 794**	341	619	603	603	7 628

** Includes all significant foreign currency exposures on operating leases*

CREDIT RISK

Financial assets that potentially subject the Group to concentrations of credit risk consists primarily of cash, short-term deposits, government and public corporation bonds listed on the Bond Exchange of South Africa, the market value of forward exchange contracts, derivatives and trade receivables. The Group's exposures to credit risks are confined to credible counterparties and are managed within Board approved credit limits. Trade receivables are presented net of provisions. Credit risks with respect to trade receivables are limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. It is the policy of the Group to perform ongoing credit evaluations of the financial position of counterparties and appropriate security is obtained where necessary. Accordingly the Group has no significant concentration of credit risk that has not been adequately provided for.

Below is a summary of all significant exposures, all within the approved limits, as at 31 March 2004.

	2004 R million	2003 R million
Credit risk (inclusive of marginal risk)**	6 237	5 124
Bond issuer risk**	421	1 212
Guarantees	1 465	2 057
Trade and other receivables*	7 359	6 261
	15 482	14 654

** Refer note 15*

****Definitions**

- *Credit risk*
  Credit risk is the potential loss that may arise when a counterparty cannot fulfil its commitments in respect of a transaction.

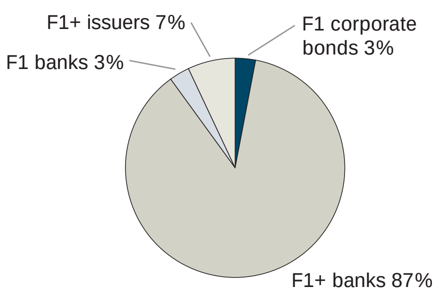
- *Marginal risk*
  The risk that a counterparty is not in a position to fulfil its financial obligations according to the terms and conditions of the transaction and that the transaction has to be closed-out at a market value loss.

- *Bond issuer risk*
  The risk that an issuer of bonds will not be able to fulfils its financial obligations according to the terms of the bond issues.

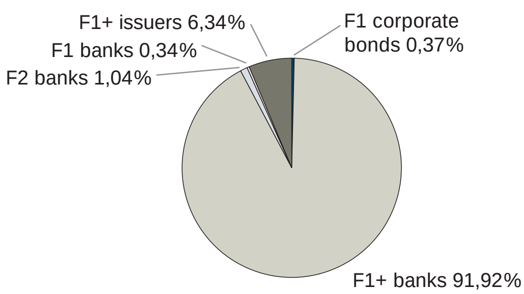
The following diagrams reflect the distribution of credit risk, expressed in terms of short-term credit ratings, excluding guarantees and trade receivables.

Credit risk exposure

Transnet Limited



Transnet Group



Rating definitions
F1+ Short-term rating with extremely strong capacity of timely repayment
F1 Short-term rating with strong capacity of timely repayment
F2 Short-term rating with adequate capacity of timely repayment

COMMODITY PRICE HEDGING

The fuel price risk of South African Airways is managed to ensure that exposures to increases in jet fuel prices are limited and opportunity losses are minimised when the price of jet fuel decreases.

This risk is managed through the use of derivative financial instruments, eg swaps, caps, puts, etc within a structured hedging strategy. The net hedging position is limited to the level of consumption of jet fuel by the airline. The underlying commodity to the derivative financial instrument must be linked to a commodity of which the price characteristics can be directly linked.

Each instrument in the jet fuel hedging portfolio is analysed according to monthly expiration values taking into account extensive sensitivity analysis based on historic and expected changes in the fuel price. Transactions approved within the hedging strategy are limited to a three-year period.

FAIR VALUE

At 31 March 2004 and 2003 the carrying amounts of cash, short-term deposits, accounts receivable, accounts payable and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. The fair values of bonds listed on the Bond Exchange of South Africa and those of derivative financial instruments have been based on mid-market values at the reporting date. The fair values represent an approximation, but these may differ from the values that will finally be realised.

CURRENCY CONVERSION

The rates of exchange at 31 March 2004 used for conversion purposes were:

	2004	2003
US Dollar	6.6108	8.0638
Pound Sterling	11.9173	12.6964
Japanese Yen	16.0525	14.8708
Euro	8.0143	8.6202

Annexure B

for the year ended 31 March 2004

DESCRIPTION

Through Spoornet and South African Port Operations, Transnet has entered into service contracts with two major customers (“Contract A” and “Contract B”) to handle and transport iron ore products by rail. The contracts came into effect on 1 January 2002 and 1 July 2002 and have a contractual term of twenty five years and five years, terminating on 31 December 2027 and 30 June 2007 respectively. Together, the contracts specify a minimum annual tonnage of 22 million tonnes and a maximum annual tonnage of 29,5 million tonnes. The forecast tonnage, within this minimum and maximum range, is agreed on an annual basis for both contracts.

Both contracts stipulate that the rail tariff charged by Transnet will be based on the US dollar iron ore price prevailing at the date of transportation. For Contract A, the tariff per tonne is based on a percentage of the prevailing Net FOB (Free on Board) US dollar iron ore price, translated at the prevailing Rand/US dollar exchange rate. The rail tariff under Contract B is calculated on a base tariff, adjusted for changes in the average Rand/US dollar exchange rate and changes in the US dollar iron ore price. As a result of the tariff structures in these contracts, Transnet is exposed to Rand/US dollar foreign currency risk and US dollar iron ore price risk.

The contracts also stipulate that the parties will notify each other of any event constituting a hardship and shall cooperate with regard to the alleviation of such hardship. Provisions relating to the hardship clause for Contract A are set out in more detail below.

ACCOUNTING POLICIES WITH RESPECT TO THE CONTRACT

Due to the tariff being linked to the US dollar iron ore, the contracts constitute a hybrid contract under AC133, made up of a host Rand tariff contract and an embedded derivative. Since the embedded derivatives are not considered to be closely related to the host contracts, AC133 requires that the embedded derivatives be separated from the host contracts and measured at fair value, with changes in fair value reported in net profit or loss for the period, in terms of the accounting policy set out on page 57.

Transnet fully adopted AC133 in the financial year beginning 1 April 2003. In terms of the transitional provisions contained in AC133, the fair values of embedded derivatives on the date of adoption are recognised as an adjustment to opening retained earnings. All subsequent changes in fair values are recorded in net profit or loss in the period during which they occur.

The transport revenue arising from the contract is recognised using the implied Rand/Iron ore forward rate in the original iron ore forward curve at the date of inception of the contract. This revenue is recognised in the period in which it is earned, in line with the Transnet’s policy on revenue recognition.

VALUATION APPROACH

The valuation of the contract is consistent with that of a forward contract in which Transnet has agreed to forego a stream of future fixed Rand amounts, in exchange for an income stream equal to a fixed proportion of the future US dollar iron ore price at each payment date.

The recognised fair value of the embedded derivatives was determined by first calculating the fair value of the iron ore forward contracts based on the remaining contractual maturity of the contracts (“forward contract valuation”), and then making an assessment of the embedded derivative based on the expected impact of the hardship clause.

THE SIGNIFICANT FAIR VALUE INPUTS USED IN THE VALUATION MODELS ARE AS FOLLOWS:

- Spot and forward interest rates
- Spot and forward iron ore prices
- Spot and forward Rand/US dollar exchange rates
- Credit risk premium associated with the contract
- Forecast tonnages
- Contractual adjustments to the Free on Board iron ore price

Each of the above inputs was obtained either with reference to the contractual provisions of the relevant contracts, or from independent market sources where appropriate. Since market US dollar forward iron ore prices are not directly observable, forecasted future iron ore prices have been consistently sourced from a specialist independent consulting company and used as a proxy for market iron ore forward prices for the purpose of both this valuation and for internal management processes.

SENSITIVITY ANALYSIS

The sensitivity of the fair value of the embedded derivatives to changes in key market input variables as at 31 March 2004 is described below. The sensitivity analysis is presented taking into account the full contractual term of the embedded derivatives, before incorporating the expected outcome of the hardship clause (refer to Hardship Clause of Contract A below)

Sensitivity to Rand/US dollar exchange rates at 31 March 2004

	(20%)	(10%)	Spot	10%	20%
Valuation as at 31/3/2004 (R million)	(11 463,1)	(10 313,2)	**(9 163,2)**	(8 013,2)	(6 863,3)

Sensitivity to US dollar Iron ore forward price curve at 31 March 2004

	(20%)	(10%)	Spot	10%	20%
Valuation as at 31/3/2004 (R million)	(11 456,3)	(10 309,8)	**(9 163,2)**	(8 016,6)	(6 870,1)

Sensitivity to US dollar interest rates at 31 March 2004

	(20%)	(10%)	Spot	10%	20%
Valuation as at 31/3/2004 (R million)	(8 213,8)	(8 705,7)	**(9 163,2)**	(9 589,3)	(9 986,5)

Sensitivity to Rand interest rates at 31 March 2004

	(20%)	(10%)	Spot	10%	20%
Valuation as at 31/3/2004 (R million)	(13 106,7)	(11 008,7)	**(9 163,2)**	(7 536,0)	(6 097,8)

Sensitivity to changes in credit risk premium at 31 March 2004

	(1%)	(0,5%)	0%	0,5%	1%
Valuation as at 31/03/04 (R million)	(10 107)	(9 618)	**(9 163)**	(8 740)	(8 350)

HARDSHIP CLAUSE OF CONTRACT A

In finalising the valuation of the embedded derivative contained in Contract A, due consideration was given to the Hardship clause. This clause provides that, if at any time during the duration of the contract, circumstances deteriorate to such an extent that the continuation of the contract under its existing terms becomes economically unfeasible or imposes unreasonable hardship on a party, then that party is entitled to notify the other party of such hardship, detailing the nature of the hardship and providing proposals as to the alleviation of the conditions of the relevant hardship.

The Board, after due consideration of the circumstances, decided to invoke the Hardship clause and issued notification of hardship on 20 August 2004 to the counterparty concerned.

In determining the quantum of the adjustment to the forward contract valuation arising from invoking the Hardship clause, Transnet took amongst others, the following factors into consideration:
• the uncertainty inherent in any negotiation;
• the terms that may result therefrom and the extent of which such terms are mutually beneficial; and
• the time period that should be allowed for negotiations.

The Board, in finalising the value of the embedded derivative contained in this service contract and after taking all factors into account, is of the opinion that the terms of the existing contract will be successfully renegotiated for the benefit of both parties.

Under these circumstances, management's best estimate of the fair value of the embedded derivatives contained in the two contracts, after such negotiations is R4 532 million. Should this not be the case, the valuation based on the contractual maturity of the embedded derivative has been disclosed elsewhere in the notes as this would represent Transnet's maximum potential liability under the contract. The fair values of the embedded derivatives have therefore been recognised in Transnet's financial statements as follows:

	31 March 2004	31 March 2003
Forward contract valuation (maximum potential liability) (R million)	**9 163,2**	8 085,0
Adjustment based on the Hardship clause (R million)	**(4 631,2)**	(4 132,3)
Amount recognised (R million)	**4 532,0**	3 952,7

Impact of revisions to AC133

It should, however, be noted that the amendments to AC133 (effective for Transnet as of 1 April 2005) will preclude making an adjustment to the forward contract valuations as a result of invoking the Hardship clause. At this point, Transnet will be required to retrospectively apply AC133's amended fair valuation principles by recognising the full fair value of the embedded derivative and restating the opening retained earnings in respect of comparative periods.

Iron ore embedded derivative contracts – key valuation variables and maturity analysis

	31 March 2004 to 31 March 2005	1 April 2005 to 31 March 2006	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2014	1 April 2014 to 31 March 2019	1 April 2019 to 31 March 2024	1 April 2024 to 31 March 2027	Total
A. Fair value of maturing portion of embedded derivative (R million)	(743,5)	(619,6)	(651,4)	(591,6)	(502,3)	(2 102,8)	(1 664,1)	(1 387,6)	(900,4)	(9 163,3)
B. Expert forecast of future iron ore prices (US dollar)	$20,13	$22,96	$22,25	$21,64	$22,41	$22,50	$22,06	$22,02	$22,02	–
C. Implied forward Rand/US dollar exchange rates	R6,61	R7,10	R7,62	R8,08	R8,58	R10,01	R11,81	R12,67	R13,03	–
D. Embedded derivative forward price (Rand per tonne)	R64,13	R69,58	R75,86	R81,00	R83,59	R97,68	R119,60	R139,71	R155,88	–
E. Discount factor (including credit risk premium)	0,952	0,862	0,772	0,687	0,612	0,442	0,264	0,171	0,122	–
F. Adjustment factor*	0,66	0,56	0,60	0,65	0,25	0,25	0,25	0,25	0,25	–

* ***Note:*** *The adjustment factor represents the adjustment required to the iron ore price in order to determine the fair value of the embedded derivatives under the transport contracts.*

Annexure C

for the year ended 31 March 2004

SUBSIDIARIES	Shares issued	Effective holding		Voting power held
	Million	**2004 %**	2003 %	**2004 %**
LOCAL SUBSIDIARIES				
Transport Logistics				
Viamax (Pty) Ltd	15	**100**	100	**100**
Marine Data Systems (Pty) Ltd		**80**	80	**80**
Owner Driver Management (Pty) Ltd		**100**	100	**100**
Southern African Airline Holdings (Pty) Ltd		**100**	100	**100**
SA Airways (Pty) Ltd	3 127	**95**	95	**95**
Autopax (Pty) Ltd	20	**100**	100	**100**
Agriport (Pty) Ltd		**100**	100	**100**
Property Holdings				
Transhold Properties (Pty) Ltd		**100**	100	**100**
Esselen Park Developments (Pty) Ltd		**100**	100	**100**
Transite Properties (Pty) Ltd		**100**	100	**100**
Point Waterfront (Pty) Ltd		**51**	51	**51**
Proptrade (Pty) Ltd		**100**	100	**100**
The Bay Waterfront (Pty) Ltd		**100**	100	**100**
Construction				
Protekon (Pty) Ltd		**100**	100	**100**
IT Procurement				
B2B Africa Holdings (Pty) Ltd		**100**	100	**100**
Marketing				
Transtrade (Pty) Ltd	1	**100**	100	**100**
Engineering				
Transwerk Foundries (Pty) Ltd		**100**	100	**100**
Insurance Captive Cells				
Spoornet Guard Risk		**100**	100	**100**
Freight Dynamics Guard Risk		**100**	100	**100**
FOREIGN SUBSIDIARIES				
Transport Logistics				
Alliance Air Ltd (Uganda)		**57**	57	**57**
Freight Logistics International (British Virgin Islands)	23	**100**	100	**100**
Translease International (Mauritius)		**95**	95	**95**
Spoornet Do Brazil (Brazil)		**100**	100	**100**
SUBSIDIARIES HELD BY OTHER SUBSIDIARIES				
Incorporated in the Republic of South Africa unless stated otherwise				
Held within SA Airways (Pty) Ltd				
Airchefs (Pty) Ltd		**95**	95	**95**
Airchefs International (Pty) Ltd		**95**	95	**95**
Leisurebird (Pty) Ltd		**95**	95	**95**
City Centre (Pty) Ltd		**100**	100	**100**
SAA Technical (Pty) Ltd		**95**	95	**95**
International Aviation Personnel (Pty) Ltd		**95**	95	**95**
Air Tanzania (Pty) Ltd (Tanzania)		**49**	49	**>50**
Held within Viamax (Pty) Ltd				
HSA Management Systems (Pty) Ltd		**100**	100	**100**
KNVL Zimbabwe (Pty) Ltd (Zimbabwe)		**60**	60	**60**
Viamax Fleet Solutions (Pty) Ltd		**60**	60	**60**
Viamax Logistics (Pty) Ltd		**100**	100	**100**
Viamax Fleet Management (Pty) Ltd		**100**	100	**100**
Held within SA Airline Holdings (Pty) Ltd				
SA Express (Pty) Ltd	57	**100**	100	**100**

Shares at cost		Interest of holding company Net profit/(loss)		Interest of holding company indebtedness		Provision for losses	
2004 R million	2003 R million	**2004 R million**	2003 R million	**2004 R million**	2003 R million	**2004 R million**	2003 R million
15	15	**94**	74	**447**	408	**–**	
		(90)	(61)	**215**	159	**220**	127
					–		
58	58	**(107)**	(37)	**270**	177		131
8 815	2 728	**(8 720)**	(4 295)	**35**	1 765	**8 815**	600
20	20	**(11)**	3	**103**	–		–
		12			107		–
		(15)	(10)	**92**	–		–
			89	**9**	78	**10**	49
					10		10
				–		**–**	
		(1)	(2)	**36**	–	**25**	–
					35		13
		19	9	**(226)**	(163)		–
		(14)	(34)	**85**	85	**10**	63
1	1			**(1)**	(1)	**–**	–
				141	140	**141**	140
3	3	**6**	8		–		–
1	1	**3**	3		–		–
		3	7	**383**	–	**383**	–
23	23	**(24)**	(71)	**166**	386		380
					166	**56**	51
					–		–
8 936	2 849	**(8 845)**	(4 317)	**1 755**	3 352	**9 660**	1 564
71	71	**(31)**	2				

ASSOCIATES*	Principal activity	Effective holding 2004 %	Effective holding 2003 %	Investment at carrying value 2004 R million	Investment at carrying value 2003 R million
Arivia.kom (Pty) Ltd	IT service provider	**32**	32	**210**	210
VAE (Transwerk) Perway (Pty) Ltd	Refurbishment of Perway	**35**	35	**6**	6
Fleetcall (Pty) Ltd	Telecommunications	**–**	50	**–**	–
Commercial Cold Storage (Duncan Dock) (Pty) Ltd	Storage and bondage	**30**	30	**2**	–
Port Shepstone and Alfred Country Railways (Pty) Ltd	Railway operator	**28**	28	**–**	–
Comazar (Pty) Ltd	Transport logistics	**32**	32	**21**	14
V&A Holdings (Pty) Ltd	Property development and management	**26**	26	**424**	424
Mossel Bay Waterfront (Pty) Ltd	Property development and management	**15**	15	**2**	2
Equity Aviation/ (Apron Services) (Pty) Ltd	Transport logistics	**49**	49	**23**	21
Cape Town (Pty) Ltd	Port operations	**50**	50	**1**	1
Durban Coal Terminal (Pty) Ltd	Port operations	**50**	50	**–**	–
Belldev (Pty) Ltd	Property development and management	**50**	50	**–**	–
Bay Waterfront (Pty) Ltd	Property development and management	**51**	51	**–**	–
Railway Systems of Zambia (Zambia)	Railway operator	**19**	–	**–**	–
All Port Logistic Terminal	Port operations	**30**	–	**11**	–
Rain Prop (Pty) Ltd	Property development and management	**20**	–	**3**	–
				703	678

Summarised financial information of significant associates	V&A Waterfront Holdings (Pty) Ltd 2004 R million	V&A Waterfront Holdings (Pty) Ltd 2003 R million	Arivia.kom (Pty) Ltd 2004 R million	Arivia.kom (Pty) Ltd 2003 R million
Financial position				
Assets	**3 173**	2 845	**895**	670
Liabilities	**2 452**	2 391	**439**	317
Results of operations				
Revenue	**657**	229	**1 605**	1 299
Profit before tax	**383**	1	**74**	20
Income tax expense	**115**	7	**18**	2
Net profit/(Loss) for the year	**267**	(6)	**56**	18

** Incorporated in the Republic of South Africa unless stated otherwise.*

Annexure D

for the year ended 31 March 2004

BOARD OF DIRECTORS

Dr BA Khumalo
Chairman

D Admin (hc), MBA, MA (Corporate and Political Communications), Advanced Executive Programme, Dip in Management, Dip in Broadcast Journalism

Ms M Ramos
Group Chief Executive

MSc (Economics) University of London, BCom (Hons) (Economics) University of the Witwatersrand, BCom University of the Witwatersrand, Institute of Bankers Diploma (CAIB) Institute of Bankers

Ms SN Mabaso
Chief Financial Officer

BCom, University of Natal CA(SA)
Post-graduate Diploma in Accounting, University of Natal

Prof F Abrahams
Independent

BEcon (Hons), MEcon (UWC), DCom (Unisa)
Registered Industrial Psychologist

Prof GS Andrews
Independent

BCom, MBA, PhD

Lord S Kumar Bhattacharyya
Independent

BTech (Hons) (Mechanical Engineering) IIT Kharagpur
MSc (Engineering Production and Management) University of Birmingham
PhD (Engineering Production) University of Birmingham
Honorary DUniv, University of Surrey
Hon DSc UTM Malaysia

Mr SN Buthelezi
Independent

BCom (Economics and Accounting) Unisa, BComm (Hons) UCT, Dip in Bookkeeping

Adv N Gomomo
Independent

BProc (cum laude), LLB, Certificate of Financial Management and Investment

Ms FP Lembede
Independent

MA (Economics), Williams College, Massachusetts USA, BComm (Hon) – Economics, Unisa, BComm, University of Zululand

Ms AMSS Mokgabudi
Independent

BCom Ind Psych (Unin), H Dip Tax Law (Wits), BCompt (Hons) Unisa, CA(SA)

Mr J Molobela
Independent

BSc (Engineering) (Hons) DIC – Imperial College (London University)
MBA – Imperial College School of Management (London University)

Dr Y Muthien
Independent

BA (UWC), BA Hons (UWC), MA (North Western University, USA), DPhil (Oxford)

Ms HN Ndude
Independent

Diplomas: Para-legal; Conflict Resolution; UCT Office Administration and Public Relations; Course in Model of Local Government Administration and Privatisation; Story Writing and News Writing (University of Birmingham)

Mr M Ramano
Independent

BCompt (Unisa), Personnel Management (Unisa)

Mr JH Rowlands
Independent

MA, BA (Hons) in Chemistry – Oxford University, UK

Mr PA Thompson
Independent

Bachelor of Architecture (University of Natal), Integrated Environmental Management Diploma (University of Cape Town)

TRANSNET

Glossary of terminology

CURRENT RATIO
Current assets divided by current liabilities.

DEBT
Interest bearing borrowings, retirement benefit obligations, derivative financial liabilities, less short-term investments and net cash and cash equivalents.

EBITDA
Earnings (profit from operations before net finance costs, other income and income from associates) before taxation, depreciation, amortisation and impairment.

EBITDA MARGIN
EBITDA expressed as a percentage of turnover.

EQUITY
Issued capital, reserves and minority interests.

GEARING
Debt expressed as a percentage of the sum of debt and equity.

HEADLINE EARNINGS
As defined in circular 7/2002 issued by the South African Institute of Chartered Accountants, separates from earnings all items of a capital nature. It is not necessarily a measure of sustainable earnings.

INTEREST COVER
Profit or loss before taxation, less net finance costs, excluding net foreign exchange gain on translation, divided by net finance cost excluding net foreign exchange gain on translation.

NET ASSETS
Total assets less total liabilities.

NET PROFIT/(LOSS)
Profit or loss after taxation and minority interests.

NET PROFIT MARGIN
Net profit or loss expressed as a percentage of turnover.

OPERATING PROFIT
Profit or loss from operations before net finance costs.

OPERATING PROFIT MARGIN
Operating profit or loss expressed as a percentage of turnover.

RETURN ON AVERAGE NET ASSETS
Net profit expressed as a percentage of average net assets.

RETURN ON CAPITAL EMPLOYED
Net profit expressed as a percentage of average ordinary shareholders' funds.

RETURN ON EQUITY
Net profit expressed as a percentage of average equity.

TOTAL DEBT
Current and non-current liabilities.

TOTAL DEBT TO EQUITY RATIO
Total debt expressed as a ratio to equity.

Corporate information
for the year ended 31 March 2004

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COMPANY REGISTRATION NUMBER
1990/000900/06