IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the base prospectus attached to this electronic transmission (the "**Base Prospectus**") and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that you will not forward this electronic transmission or the attached Base Prospectus to any other person.

Confirmation of Your Representation: By accessing the Base Prospectus you are deemed to have represented to Deutsche Bank AG, London Branch (the "**Arranger**"), Barclays Bank PLC and Goldman Sachs International (together with the Arranger, the "**Dealers**") and Transnet SOC Ltd (the "**Issuer**") that (i) you have understood and agree to the terms set out herein, (ii) you are either (a) not a U.S. person (within the meaning of Regulation S of the United States Securities Act of 1933, as amended (the "**Securities Act**")), and are not acting for the account or benefit of any U.S. person, and that the electronic mail address you have given to us is not located in the United States, its territories and possessions, or (b) a person that is a "**Qualified Institutional Buyer**" within the meaning of Rule 144A under the Securities Act (a "**QIB**"), (iii) you consent to delivery of the Base Prospectus by electronic transmission, (iv) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Arranger and the Dealers, and (v) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable securities laws of other jurisdictions.

Restrictions: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

ANY NOTES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QIB THAT IS ACQUIRING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

The Base Prospectus is not being distributed to, and must not be passed on to, the general public in the UK. The communication of the Base Prospectus is only being made to those persons falling within Article 19(5) or Article 49(2)(a) to (e) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to other persons to whom the Base Prospectus may otherwise be distributed without contravention of sections 21 or 328 of the Financial Services and Markets Act 2000, or any person to whom it may otherwise lawfully be made. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Arranger or the Dealers, any person who controls any of the Arranger or the Dealers, the Issuer, any director, officer, employee or agent of any of them, or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from any of the Arranger or the Dealers.

TRANSNET SOC Ltd

(formerly Transnet Limited)

(Registration number 1990/000900/30)
(incorporated with limited liability in the Republic of South Africa)

U.S.$6,000,000,000
Global Medium Term Note Programme

Under the Global Medium Term Note Programme described in this Base Prospectus (the "**Programme**"), Transnet SOC Ltd (formerly Transnet Limited) ("**Transnet**", the "**Company**" or the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**"). The aggregate principal amount of Notes outstanding will not at any time exceed U.S.$6,000,000,000 (or its equivalent in other currencies).

This Base Prospectus has been approved by the Financial Conduct Authority (the "**FCA**") in its capacity as competent authority for the purposes of Directive 2003/17/EC as amended (which includes amendments made by Directive 2010/73/EU (the "**2010 PD Amending Directive**")) (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purposes of giving information with regard to the issue of the Notes described in this Base Prospectus for the period of 12 months from the date of this Base Prospectus. Application has been made for such Notes to be admitted to the official list (the "**Official List**") of the FCA and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments. The relevant Final Terms (the "**Final Terms**") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market. Notes may also be issued that are not traded on any exchange.

Investing in the Notes involves substantial risks. Prospective investors should have regard to the risks described under the section captioned "*Risk Factors*" in this Base Prospectus.

In general, the Notes of each Series (as defined in "*Overview—Overview of the Programme—Method of Issues*") issued in bearer form ("**Bearer Notes**") will initially be represented by a temporary global note in bearer form, without interest coupons (each a "**Temporary Global Note**"), and will be sold in "offshore transactions" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in permanent global notes (each a "**Permanent Global Note**" and, together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Final Terms, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the completion of the distribution of the relevant Tranche (as defined in "*Overview—Overview of the Programme—Method of Issues*") of Notes upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part in the limited circumstances described under "*Summary of Provisions Relating to the Notes While in Global Form*". Global Notes may be deposited on the issue date with a common depositary (the "**Common Depositary**") on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") or such other clearing systems as shall be agreed between the Issuer and the relevant Dealers (as defined herein). Bearer Notes are subject to U.S. tax law requirements.

The Notes of each Tranche to be issued in registered form ("**Registered Notes**") will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Tranche and may be represented by a Global Certificate (as defined below) and Certificates may, and Global Certificates will, be deposited on the relevant issue date either with (a) a Common Depositary or (b) such other clearing system as shall be agreed between the Issuer and the relevant Dealers (as defined herein).

Registered Notes which are sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a permanent registered global certificate (each a "**Regulation S Global Certificate**") without interest coupons, which may be deposited on the relevant issue date (a) in the case of a Series intended to be cleared through Euroclear and/or Clearstream, Luxembourg, with a Common Depositary and (b) in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealers.

Registered Notes which are sold in the United States to "qualified institutional buyers" (each a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") (the "**Rule 144A Notes**") under the Securities Act will initially be represented by a permanent registered global certificate (each a "**Rule 144A Global Certificate**" and, together with the Regulation S Global Certificates, the "**Global Certificates**"), without interest coupons, which, as specified in the Final Terms, may be cleared through Euroclear and/or Clearstream, Luxembourg or through The Depository Trust Company ("**DTC**") and which may be deposited on the relevant issue date either with a Common Depositary or with a custodian (the "**Custodian**") for DTC and registered in the name of a nominee for the Common Depositary or in the name of Cede & Co. as nominee for DTC.

The provisions governing the exchange of interests in the Global Certificates for individual Certificates in certain limited circumstances are described in "*Summary of Provisions relating to the Notes while in Global Form*".

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (the "**EEA**") or offered to the public in a Member State of the EEA in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum specified denomination (each a "**Specified Denomination**") shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Rule 144A Notes may only be offered in a minimum denomination of U.S.$200,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes). Any sale or transfer of Rule 144A Notes after the issue date of such Notes may only be made in a minimum denomination of U.S.$200,000 (or its equivalent in another currency).

The Issuer has been rated A3 (Negative Outlook) by Moody's Investors Service Ltd and BBB (Negative Outlook) by Standard & Poor's Credit Market Services Europe Limited. Unsecured, unsubordinated long term debt securities of the Issuer to be issued under the Programme have been rated A3 by Moody's Investors Service Ltd and BBB+ by Standard & Poor's Credit Market Services Europe Limited. Both are established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (1) in accordance with Rule 144A to a person that the holder and any person acting on its behalf reasonably believes is a QIB that is acquiring the Notes for its own account or for the account of one or more QIBs, (2) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, or (3) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder, if available, in each case in accordance with any applicable securities laws of any state of the United States. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of the Notes. For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Base Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions.*"

This Base Prospectus should be read and construed together with any amendment or supplement hereto. Further, in relation to any Series of Notes, this Base Prospectus should be read and construed together with the relevant Final Terms.

As described further in this Base Prospectus, the prior written approval of the Financial Surveillance Department ("**ExCon**") of the South African Reserve Bank (the "**SARB**") will be required for each Tranche of Notes issued under this Programme.

Arranger

Deutsche Bank

Dealers

Deutsche Bank	**Barclays**	**Goldman Sachs International**

The date of this Base Prospectus is 24 October 2013.

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, its operating divisions and its subsidiaries (the "**Group**") and the Notes which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Group.

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Arranger or Dealer (each as defined in "*Overview—Overview of the Programme*").

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale, or delivery of any Note shall, under any circumstances, create any implication that the information contained in this Base Prospectus is accurate subsequent to the date hereof or that there has been no change in the affairs of the Issuer or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Base Prospectus and any Final Terms and the offering, sale or delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Arranger and the Dealers to inform themselves about and to observe any such restriction. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Base Prospectus and any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, Notes have not been and will not be registered under the Securities Act and Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to U.S. persons. Notes may be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and sold in the United States to QIBs in reliance on Rule 144A. Prospective purchasers of Notes are hereby notified that sellers of Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Arranger or the Dealers to subscribe for, or purchase, any Notes.

The Arranger and the Dealers have not separately verified the information contained herein. None of the Arranger or the Dealers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any Final Terms nor any financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any Final Terms or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and any Final Terms and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arranger or the Dealers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus and any Final Terms nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arranger or the Dealers.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the relevant Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States in reliance on Rule 144A under the Securities Act and the admission of the Notes to the Official List and to trading on the Market. The Issuer, the Arranger and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO SOUTH AFRICAN INVESTORS

The Notes may not be and, accordingly, are not being offered or sold to prospective investors in the Republic of South Africa. Accordingly, any offer of Notes will not be an "offer to the public" as defined in section 95 of the South African Companies Act, 2008 as amended (the "**SA Companies Act**") and this Base Prospectus does not, nor is it intended to, constitute a prospectus prepared and registered under the SA Companies Act.

NOTICE TO EEA INVESTORS

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by the Final Terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

NOTICE TO INVESTORS

Because of the restrictions described herein, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any Notes.

The offering of Notes in the United States will be made in reliance upon an exemption from registration under the Securities Act. In purchasing Notes each investor will be deemed to have made certain acknowledgments, representations and agreements. See "*Subscription and Sale*" and "*Transfer Restrictions*".

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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OVERVIEW

This overview should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information and definitions of terms contained elsewhere in this Base Prospectus. This overview may not contain all the information that prospective investors should consider before deciding to invest in the Notes. Accordingly, any decision by a prospective investor to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. Prospective investors should read this entire Base Prospectus carefully, including the financial statements and related notes and the information set forth under the headings "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements".

Transnet's Business

Transnet is a public company and was incorporated by the Government of the Republic of South Africa (the "**Government**") under the Companies Act, 1973, on 1 April 1990, pursuant to the Legal Succession to the South African Transport Services Act, 1989 (the "**Legal Succession Act**") with the Government as its sole shareholder (the "**Shareholder**"). Transnet was formed as a result of the transfer of the commercial enterprise of the South African Transport Services to Transnet as the country's railway, port and pipeline operator. With effect from 1 May 2011, Transnet changed its name from Transnet Limited to Transnet SOC Ltd.

Transnet is the operator, owner and custodian of a major portion of the Republic of South Africa's transport infrastructure, specifically its railway, ports and pipelines. Transnet is a focused freight transport company with the goal of delivering integrated, efficient, safe, reliable and cost-effective services. Transnet's key mandate, as defined by its Shareholder Compact (the "**Shareholder Compact**") with the Department of Public Enterprises of the Republic of South Africa (the "**Shareholder Representative**"), is to assist in lowering the cost of doing business, enabling economic growth in the Republic of South Africa and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost effective manner. Transnet seeks to promote economic growth in the Republic of South Africa by providing its customers with access to world-class integrated logistics solutions and by creating transport capacity ahead of demand. Transnet's strategic focus areas are informed by the National Development Plan, which aims to create 11 million jobs by 2030 and reduce the unemployment rate to 6 per cent., and the Statement of Strategic Intent governmental initiatives issued by the Minister of Public Enterprises.

Substantially all of Transnet's revenues are generated in the Republic of South Africa. Over the past seven Financial Years, Transnet has transformed from a diversified conglomerate into a focused rail, port and pipeline operator. Transnet has accomplished this through the sale, closure or transfer of non-core assets and businesses. Transnet's continuing operations are grouped into five divisions according to major transport modes, with central support services unified under one brand. For operational and reporting purposes, Transnet is organised into the following five core business divisions: Freight Rail ("**Transnet Freight Rail**"), Engineering ("**Transnet Engineering**"), the National Ports Authority ("**Transnet National Ports Authority**"), Port Terminals ("**Transnet Port Terminals**") and Pipelines ("**Transnet Pipelines**"). The "Other Division" includes Transnet Property, Transnet Capital Projects, Transnet Corporate Centre, and Transnet Foundation. The five core business divisions and the Other Division combined are referred to as the Group.

Transnet Freight Rail is the largest of Transnet's operating divisions by revenue and number of employees. Transnet Freight Rail is focused on transporting bulk and containerised freight along an approximately 20,500 kilometre route rail network.

Transnet Engineering consists of nine product-focused business units that provide services ranging from refurbishment, conversion and upgrades, to the manufacturing and assembly of rail related rolling stock. Most of Transnet Engineering's sales are generated from sales to Transnet Freight Rail and the Passenger Rail Agency of South Africa (a separate state owned company responsible for passenger rail transport).

Transnet National Ports Authority is responsible for the safe, efficient and effective economic functioning of the national ports system of the Republic of South Africa, which it owns and manages in a landlord capacity on behalf of the Government. Transnet National Ports Authority is the provider of port infrastructure and marine services at all eight fully operational commercial ports in the Republic of South Africa.

Transnet Port Terminals manages 16 cargo terminals situated across seven of the eight South African ports. It provides cargo handling services for container, bulk, break-bulk and automotive cargos.

Transnet Pipelines transports a range of petroleum and gas products through approximately 3,800 kilometres of underground pipelines, traversing five provinces in the Republic of South Africa, with the strategic objective of ensuring the security of the supply of petroleum products to the inland market.

For the six months ended 30 September 2013, the Group generated revenue of R28,461 million, operating profit of R6,907 million and profit for the period of R2,853 million. For Financial Year 2013, the Group generated revenue of R50,194 million, operating profit of R11,436 million and profit for the year of R4,340 million. For Financial Year 2012, the Group generated revenue of R45,900 million, operating profit of R10,014 million and profit for the year of R4,119 million.

Pursuant to the Group's Market Demand Strategy (the **"MDS"**), Transnet's current capital expenditure programme (the "**Capital Expenditure Programme**"), which commenced in Financial Year 2013, provides for Transnet's continuing operations to invest R307.5 billion (excluding capitalised borrowing costs of R10.5 billion) over the next seven Financial Years on key corridors and sectors. See "—Strategy". The Group's spending under the Capital Expenditure Programme for the six months ended 30 September 2013 (excluding capitalised borrowing costs) amounted to R11.2 billion, with R6.2 billion spent to maintain current infrastructure and equipment and R5 billion spent on expanding capacity. The Group's spending under the Capital Expenditure Programme for Financial Year 2013 (excluding capitalised borrowing costs) amounted to R27.5 billion, with R16.2 billion spent to maintain current infrastructure and equipment and R11.3 billion spent on expanding capacity.

Transnet currently estimates that R121.5 billion will be invested in the next three Financial Years (excluding capitalised borrowing costs). Transnet currently estimates that of the total seven-year R307.5 billion Capital Expenditure Programme, R188.5 billion will be spent on expanding capacity and R119.0 billion will be spent on sustaining existing infrastructure and equipment.

In response to the R307.5 billion capital investment plan, driven by the MDS, Transnet will fund approximately R67.9 billion of the R307.5 billion planned investment through borrowings and will fund the balance from its own revenues. The Capital Expenditure Programme is reviewed and updated annually by Transnet's Board of Directors (the "**Board of Directors**") and is subject to change.

Transnet is funded through reserves and borrowings and does not receive cash subsidies from the Government. Transnet raises funds in the debt markets based on the strength of its own balance sheet and it has raised funding without government guarantees since 2005. As a result, Transnet needs to earn an appropriate return on its assets that will allow for the maintenance and expansion of the rail, port and pipeline infrastructure that it owns and operates, while maintaining a strong balance sheet. Notes issued under the Programme are not guaranteed by the Government.

Business Strengths

Transnet's business strengths include the following:

Country-wide Reach and Scale

Transnet's integrated system of freight rail, ports and pipelines covers the most economically important corridors in the Republic of South Africa. Its substantial operations and market share in freight rail and its ownership and operation of all the country's commercial ports means that Transnet's operations extend across the whole of the Republic of South Africa and facilitate an international focus. Transnet owns or leases in excess of 2,200 locomotives and 71,000 freight wagons. Transnet National Ports Authority owns and manages, in a landlord capacity on behalf of the Government, the port system of the Republic of South Africa. Transnet National Ports Authority is the provider of port infrastructure and marine services at all eight commercial ports in the Republic of South Africa. Transnet Port Terminals manages 16 cargo terminal operations in seven of the eight South African ports, providing a range of cargo-handling and warehouse services to a wide variety of customers, including shipping lines, freight forwarders and cargo owners in the container, bulk, break-bulk and automotive cargo sectors. Transnet also owns over 3,800 kilometres of pipeline infrastructure.

Focus on Customer Relationships

Transnet focuses on developing and maintaining long-term relationships with strategic customers, which includes participating in industry forums with its top customers to help establish long-term contracts with such customers and on steering committees to deal with operational and commercial matters relating to the export of iron ore.

Financial Strength

Transnet believes that its financial strength gives it the resources to implement its strategies and to pursue its Capital Expenditure Programme to upgrade and increase capacity in its network. As at 30 September 2013, the Group had cash and cash equivalents of R5,618 million which, together with the Group's relatively low gearing and historic profitability, makes the Group financially strong in the opinion of management.

Captive Markets

Transnet is responsible for the movement and transportation of a significant portion of all bulk commodities transported within the Republic of South Africa. These include export coal, iron ore and manganese under "take or pay" contracts with commodities companies operating in the Republic of South Africa.

Ability to Capitalise on International Growth in Container Transport

The location of the Republic of South Africa at the southern tip of Africa, between two oceans and on major shipping routes means that Transnet's ports and port terminals, as well as the rail network leading from those ports, are well-positioned to capture economic benefits from the international growth in container traffic. Transnet believes that intermodal container traffic will become increasingly important to the South African economy, based on the increasing importance of container supply chains within global production-sharing arrangements. The cost, speed, predictability, reliability, flexibility and connectivity of container supply chains are key determinants of competitiveness for manufacturers, and accordingly Transnet believes that its geographic location on the African continent, coupled with its integrated container transportation strategy, puts it in a strong position to benefit from growth in container transport.

Well Positioned to Capitalise on the Republic of South Africa's Abundance of Metal and Mineral Resources

The integration of Transnet's freight rail network with its ports allows Transnet to capture a significant portion of the transportation revenues associated with the export of the Republic of South Africa's metal and mineral resources as well as imports of manufactured goods. The Republic of South Africa is believed to have the largest known deposits of chromium, manganese and vanadium. It is also among the largest producers of platinum, gold and chromium and has significant deposits of iron ore, coal, manganese, antimony, copper, nickel, lead, titanium, fluorspar, zinc and zirconium. Transnet's network has been able to respond to some of this demand and is well positioned geographically to do so on a cost-effective basis. These commodities are mainly exported, although iron ore is also used by the Republic of South Africa's steel industry. Transnet Freight Rail has a largely dedicated coal line and a dedicated iron ore line to transport coal and iron ore products for export and manages the rail transportation of all other metals and minerals.

Strategy

Market Demand Strategy (the "MDS")

In an effort to improve Transnet's performance and customer satisfaction by enhancing operational efficiencies, the Board of Directors initiated the Quantum Leap Strategy in February 2010. However, as a result of insufficient rail capacity constraining economic growth, particularly in respect of the demand for transportation of mining products, Transnet adopted the MDS, which replaced the Quantum Leap Strategy with effect from 1 April 2012.

Pursuant to the MDS, Transnet's Capital Expenditure Programme provides for investment of R307.5 billion over the next seven Financial Years in rail, port and pipeline infrastructure, which represents a slight increase from the previous seven-year, R300.1 billion, capital expenditure programme. As of 31 March 2013, Transnet had already invested approximately R27.5 billion pursuant to the Capital Expenditure Programme (excluding capitalised borrowing costs), with an additional R11.2 billion invested in the six months ended 30 September 2013. The MDS focuses on growing volumes and market share aggressively in order to provide the necessary impetus for the country's economic growth, infrastructure investment and job creation. This has been refined to ensure that Transnet's operational goals are aligned with the Government's developmental objectives. The Capital Expenditure Programme is reviewed and updated annually by the Board of Directors to ensure that Transnet is capable of responding with maximum flexibility to developments in its business and the South African economy more generally. See "Business—Capital Expenditure Programme" below for additional details on Transnet's new capital expenditure programme under the MDS.

Management plans to focus on the following components in order to realise the MDS:

Capacity Creation & Maintenance

The substantial increase in capacity that is needed to achieve the MDS is expected to be attained through a combination of efficiency improvements and the investment of approximately R188.5 billion over the course of the entire seven-year Capital Expenditure Programme on both the rail and port network to de-bottleneck the freight logistics' network and address market demand. Additionally, Transnet plans to invest R119.0 billion over the MDS period on projects designed to ensure that the Transnet infrastructure is sustainable and operates efficiently.

Transnet intends to borrow approximately R67.9 billion of the R307.5 billion planned investment in the Capital Expenditure Programme and will fund the balance from its own revenues. The Capital Expenditure Programme will be appropriately phased to ensure Transnet's capital structure and credit rating are not impacted. See "Business—Capital Expenditure Programme".

Volume Growth

Transnet's ability to attract the required volume growth to meet available capacity is a key component of the MDS. It is thus essential for Transnet to enter into take or pay contracts with its customers to secure volumes and generate demand.

Operational Efficiencies

Ensuring that Transnet maximises the utilisation of its assets and that additional capacity will be used effectively, depends on achieving operational efficiency improvements. New assets acquired pursuant to the MDS will be committed to improve productivity across the Group.

Socio-economic Goals

Additionally, Transnet intends to focus on other socio-economic areas according to the Company's commercial needs and the Republic of South Africa's broad macroeconomic and developmental objectives including:

- enabling economic integration and lowering transportation costs in the region;
- promoting sustainable growth for the South African economy and job creation;
- prioritising safety, health, environment and quality sustainability and risk management;
- creating regulatory certainty that optimises the social and economic impact of all regulatory interventions into the Group's operations, as well as ensuring regulatory compliance; and driving research and deploying new technologies.

Private Sector Participation ("PSP")

The increased capacity and efficiency of the freight system envisioned by the Capital Expenditure Programme is not sufficient to meet the needs of all customers and the economy over the long term. PSP initiatives are therefore critical in bridging this investment gap and ensuring that freight transport capacity leads to, rather than restricts, economic growth. The Board of Directors approved the PSP Framework in 2009 and a PSP policy in 2013 to support the strategy development of PSP, as it recognised that Transnet will not be able to fund, from its own balance sheet, all the investments in port, rail and pipelines that are needed for the Republic of South Africa's required economic growth and to improve the country's international competitiveness.

PSP models are, therefore, expected to be pursued:

- for complimentary funding and/or risk mitigation within the Transnet corporate infrastructure delivery plan, where there are investment opportunities that are considered non-core, for example specialised assets or services, or which are considered unaffordable from a capital commitment perspective; and
- through investment opportunities that are complimentary to Transnet's corporate investment plan but still within the identified logistics chain.

Transnet has identified a number of PSP opportunities to support its strategic objectives, primarily focused on bulk commodities (iron ore, manganese and coal) and intermodal container transport, but also including some non-core asset classes.

For coal and bulk commodities, Transnet is considering:

(i) increasing the number of inland loading and common user facilities, including the coal backbone upgrade;

(ii) further developing cross border infrastructure with Botswana, Swaziland and Mozambique;

(iii) implementing major new infrastructure projects, such as doubling the transport capacity of the Overvaal tunnel by constructing a second rail and by increasing coal capacity through the Waterberg heavy haul link; and

(iv) expanding bulk wagon coal capacity beyond 81mtpa.

For the intermodal container transport sector, Transnet is considering:

(i) constructing an additional deep-water container terminal, the Durban dig-out port; and

(ii) increasing the number of inland freight hubs, such as the Tambo Springs inland port.

Transnet is further considering utilising the PSP model for specialised and non-core assets, such as automotive and timber wagon fleets, branch lines and agriculture terminals.

Branch Line Concessions

In April 2009, the Board of Directors approved a plan to grant the private sector concessions operation of the 7,300 kilometres of classified branch lines (both closed and active). One of the primary objectives of branch line concessioning is to encourage greater use of rail in the agriculture, timber and tourism industries in support of Government's rural development strategy and job creation.

During Financial Year 2011, Transnet issued a non-binding request for intent to determine the extent and type of interest that exists in the private sector for operating its branch lines network and has received expressions of interest from a number of private operators. Transnet has phased the rollout of the branch line concessioning programme and commenced the competitive process of awarding branch line concession rights in 2012. Transnet identified three concession opportunities, namely the Belmont-Douglas, Nkwalini-Empangeni and Kroonstad-Bethlehem Maize Cluster lines. At present, the matter is still in consultation with the KwaZulu Natal, Northern Cape, and Free State provinces, respectively.

Funding Plan and Strategy

Transnet has a robust, structured and well articulated funding strategy, the overall objective of which is to ensure that the Group has sufficient liquidity to meet its requirements without breaching the key financial ratios as agreed in the Shareholder Compact and to maintain Transnet's investment grade credit rating. Transnet utilises a pre-funding strategy whereby it seeks to raise funding ahead of demand and ensure that it maintains a funding buffer of R1.0 billion.

The funding plan also involves diversifying cost-effective funding sources, exploring innovative funding solutions for projects, providing sufficient liquidity and managing financial risks.

As set out in the MDS, Transnet will fund approximately R67.9 billion of the R307.5 billion planned investment through borrowings and will fund the balance from its own revenues. The funding strategy outlines the manner in which Transnet will be funded given that Transnet raises borrowings in the debt capital markets based on the strength of its financial position. Transnet's estimated capital expenditure requirement of R307.5 billion for the MDS period will require the raising of substantial amounts of additional borrowings. Under the current plan, the funding requirements for the next seven Financial Years are estimated to amount to R67.9 billion.

Management anticipates that capital expenditure will be financed by cash from operations, together with domestic and international issues of commercial paper and bonds, bank loans, export credit agency-backed finance and funding from development finance institutions. Commercial paper and committed bank lines are expected to be used to fund working capital requirements and bonds and other long term funding are expected to be used for capital projects or general funding.

Transnet will also consider project finance, PSPs and leasing in order to mitigate any constraints that the increased capital expenditure and the funding thereof may have on its financial position. Furthermore, the

Company intends to implement strategies that will reduce the cost of carry of its positive cash balances, such as investment solutions, prepayments and refinancing or prepaying of its existing debt.

Human Capital Strategy

In order to ensure that Transnet is able to attract and retain talented management, engineers and other employees, despite its large, widely dispersed and aging workforce, Transnet plans to continue to devote significant resources to training and development of existing and new employees to meet the current and evolving skill requirements of the Group, the establishment and implementation of career development programmes as part of the talent management process and the development of future leaders through succession planning initiatives. See "*Risk Factors—Transnet is dependent upon key personnel, skilled and highly-skilled employees*."

Transnet has adopted talent management and succession planning for all levels of management and spent R864 million or 4.4 per cent. of total labour cost on training in Financial Year 2013 and expects to spend 5 per cent. of labour costs on training in Financial Year 2014. Furthermore, Transnet plans to increase the number of apprentices, engineers and engineering technicians by 10 per cent. per annum starting in Financial Year 2014. Through such training and career growth initiatives, Transnet has historically met, and in the future expects to exceed, its demand for such skills. As a result, Transnet believes it helps to educate a workforce equipped to assist in the growth of the South African economy as a whole. Additionally, Transnet is committed to targeted recruitment in order to obtain the most skilled workers, as well as to bolster the number of under-represented groups, including women and those with disabilities, to achieve equality in the work place and to develop talented employees for leadership roles. Transnet has also instituted performance based pay incentives to attract and retain talented employees across all levels of seniority.

Risk Management and Effective Governance

Transnet has established the Enterprise-Wide Risk Management ("**ERM**") Framework for managing all material risks across the Group in accordance with international standards. The ERM Framework aims to improve the practice of risk management throughout the Group's day-to-day business activities, aligning strategy, processes, people, technology and knowledge so as to evaluate and manage the uncertainties faced by the Group. Transnet believes that its risk management processes have reached a mature stage and consist of strong oversight, management and reporting and escalation of business critical risks to the appropriate governance levels including the Board of Directors and the Shareholder if necessary. The risks identified by the Group are monitored and evaluated by the various governance structures of the Group. These structures are as follows:

Board Committees

Audit Committee: The Audit Committee assists the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Company. The committee also reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems.

Board Risk Committee: The Board of Directors has delegated the responsibility for the quality, integrity and reliability of the Group's risk management to this committee. In order for this committee to provide an independent and objective oversight of risk management within the Company, it reviews and assesses the integrity of the risk control processes and systems. The committee further ensures that the risk policies are managed effectively and in accordance with the ERM Framework approved by the Board of Directors from time to time.

Remuneration, Social and Ethics Committee: During Financial Year 2013, the Social and Ethics Committee and the Remuneration and Human Resources Committee were merged to form the Remuneration, Social and Ethics Committee. The Remuneration, Social and Ethics Committee manages the Company's legal and moral obligations within its economic, social and natural environment, and guides the objectives and standards of the Company's conduct and activities. The function of the committee is to monitor the Company's activities, specifically with regard to matters relating to economic, social and natural environment. The committee aims to ensure that the Company's corporate social environment, employment and broad based black economic empowerment ("**BBBEE**") policies and standards are aligned with applicable regulatory requirements, and have due regard for the social and ethical standards and objectives of the Company. It also ensures that the succession planning policy is implemented for the members of the Group Executive Committee and the group of general managers that supports the Group Executive Committee in its committee functions.

Corporate Governance and Nominations Committee: The Corporate Governance and Nominations Committee sets the criteria for the nomination of directors to the Board of Directors, Board Committees, the Transnet Second Defined Benefit Fund Board of Trustees and subsidiary boards and ensures that a succession planning policy is implemented in respect of non-executive directors and the Group Chief Executive. The Committee has to maintain the Company's corporate governance policies and the Corporate Governance Framework.

Board Acquisitions and Disposals Committee: The Board Acquisitions and Disposals Committee's mandate is to consider and oversee the review of Transnet's procurement and provisioning systems, monitor compliance with procurement policies and practices, monitor trends in procurement spend, consider strategic acquisitions and disposals and make consequent recommendations to the Board of Directors, consider potential PSP models and approve acquisitions (where so delegated by the Board of Directors).

Group Executive Committees

Policy and Regulation Committee: The Policy and Regulation Committee ensures that the Group proactively manages policy and economic regulation risk impacting the Group.

Finance Committee: The Finance Committee reviews overall governance procedures, monitors all financial risks, monitors all shared service, procurement and supply chain and ensures appropriate financial management frameworks, policies, procedures and reporting are adopted throughout the Group.

Risk Management Committee: The Risk Management Committee ensures the quality, integrity and reliability of the Group's risk management.

Human Resources Committee: The Human Resources Committee ensures good governance in respect of remuneration policies and practices (concurrently with the Remuneration, Social and Ethics Committee) and identifies and manages human capital risks.

Capital Investment Committee: The Capital Investment Committee ensures the resources that the Group invests for the creation of capital assets are strategically managed and that such investments comply with applicable risk management processes. The Capital Investment Committee also ensures that targeted returns are achieved.

Business Information Management Committee: The Business Information Management Committee was established to integrate information communication and technology ("**ICT**") into the business and to manage ICT associated risks.

Health and Safety

Transnet strives to operate and maintain a safe and healthy workplace and is committed to complying with the Occupational Health Safety Act and any other related safety requirements.

Transnet's current initiatives to improve its safety performance include proactive emergency and hazard identification, as well as management, through risk assessment processes, training skilled safety personnel, implementing safety management systems (including planning accident responses based on various scenarios and community education initiatives), providing on-going safety awareness, providing appropriate safety equipment across its various sites, ensuring the maintenance of infrastructure and continuously re-engineering to mitigate risks at their source.

The Programme

Issuer:	Transnet SOC Ltd.
Description:	Global Medium Term Note Programme.
Initial Programme Amount:	Up to U.S.$6,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
Arranger:	Deutsche Bank AG, London Branch.
Dealers:	Deutsche Bank AG, London Branch, Barclays Bank PLC and Goldman Sachs International. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches of Notes or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches of Notes.
Fiscal Agent, Exchange Agent and Calculation Agent:	The Bank of New York Mellon.
Paying Agents and Transfer Agents:	The Bank of New York Mellon (Luxembourg) S.A., and The Bank of New York Mellon, New York Branch (in relation to Rule 144A Notes cleared through DTC).
Registrar:	The Bank of New York Mellon, New York Branch.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of notes (each, a "**Tranche**") issued on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the denominations, issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.
Issue Price:	Notes may be issued at any price on a fully paid basis, as specified in the Final Terms. The price and amount of the Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Form of Notes:	The Notes may be Bearer Notes or Registered Notes. Each Tranche of Bearer Notes will be represented on issue by a Temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their

issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "—*Selling Restrictions*"). Otherwise such Tranche will be represented by a Permanent Global Note.

Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Certificates".

Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by a Regulation S Global Certificate. Registered Notes sold in the United States to QIBs within the meaning of Rule 144A will initially be represented by a Rule 144A Global Certificate.

Clearing Systems: Euroclear and Clearstream, Luxembourg for Bearer Notes. Euroclear, Clearstream, Luxembourg or DTC for Registered Notes or as may be specified in the relevant Final Terms.

Currencies: Notes may be denominated in U.S. Dollars, Euros or in any other currency or currencies, subject to compliance with all relevant laws, regulations, directives and central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in any currency or currencies other than the currency in which such Notes are denominated if so specified in the Final Terms.

Maturities: Subject to compliance with all relevant laws, regulations, directives and/or central bank requirements, any maturity.

Specified Denomination: Definitive Notes will be in such denominations (each a "**Specified Denomination**") as may be specified in the relevant Final Terms save that (i) in the case of any Notes which are to be admitted to trading on a regulated market, or offered to the public, within the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); (ii) in the case of any Notes to be sold in the United States to QIBs, the minimum Specified Denomination shall be U.S.$200,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (iii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") will have a minimum denomination of £100,000 (or its equivalent in another currency).

If a Global Note is exchangeable for Definitive Notes at the option of the Noteholders, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

Fixed Rate Notes: Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms.

Floating Rate Notes: Floating Rate Notes (as defined in the Conditions) will bear interest determined separately for each Series as follows:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms.

Zero Coupon Notes: Zero Coupon Notes (as defined in the Conditions) may be issued at their nominal amount or at a discount to it and will not bear interest.

Interest Periods and Interest Rates: The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

Redemption: The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the FSMA will have a minimum redemption amount of £100,000 (or its equivalent in the relevant currency).

Optional Redemption: The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders (in addition to the option described in "*—Noteholder Put Option upon Change of Control*" below), and if so the terms applicable to such redemption.

Tax Redemption: Except as described in "*Optional Redemption*" above, and subject as described in "*Redemption*" above, early redemption will only be permitted for tax reasons as described in Condition 6(c) (*Redemption for Taxation Reasons*).

Noteholder Put Option upon Change of Control: If the Government ceases to own (directly or indirectly) more than 50 per cent. of the issued share capital of the Issuer or ceases to control (as contemplated in Condition 6(e)(ii)), directly or indirectly, the Issuer, save for any such change of control as will not lead to a Negative Rating Event (as defined in Condition 4(b)) or as is otherwise approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders, then each Note in respect of which the relevant Final Terms specifies that the Change of Control Put Option is applicable will be redeemable at the option of the holder at the Change of Control Redemption Amount set out in the relevant Final Terms, together with (if applicable) interest accrued to but excluding the relevant Put Date (as defined in the Conditions) if such option is exercised within the period of 30 days after the relevant Change of Control Notice (as defined in the Conditions) is given.

Status of the Notes: Subject as set out in "*Negative Pledge*" below, the Notes are unsecured obligations of the Issuer which rank *pari passu*, without any preference among themselves and, subject as aforesaid, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer.

Negative Pledge: The Notes will have the benefit of a negative pledge as described in Condition 4(a) (*Negative Pledge*).

Change of Principal Business: The Notes contain a covenant providing that the Issuer will not effect a Business Change (as defined in Condition 4(b) (*Change of Principal Business*)), save for any cessation of business arising as a result of Government Intervention (as so defined) and save for any such Business Change as will not lead to a Negative Rating Event (as so defined), or as is otherwise approved by an Extraordinary Resolution.

Cross-Default: The Notes contain a cross-default provision in respect of other Material Indebtedness (as defined in Condition 10 and including for this purpose any guarantee or indemnity in respect of the relevant indebtedness) or a failure by the Issuer or any Material Subsidiary to pay when due (or when capable of being declared due and payable), or within any applicable grace period, any Material Indebtedness.

Ratings: On 28 September 2012, South Africa's international government bond rating was downgraded from A3 to Baa1 by Moody whilst Transnet's rating of A3 remained unchanged. On 16 October 2012, Standard and Poor's downgraded both the international government bond rating and Transnet's bond rating from BBB+ to BBB. The downgrade was due to Transnet being wholly owned by the State. There was no visible impact on Transnet after the downgrade. Maintaining an investment grade credit rating is important in the successful execution of the MDS in order to ensure that Transnet accesses cost competitive funding from both international and domestic investors and lenders. A further downgrade in Transnet's bond rating would have a negative impact on Transnet's ability to execute the MDS as it would trigger a number of loan covenants. Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms and will not necessarily be the same as the rating(s) assigned to Notes already issued. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered (or which has applied for registration and not been refused) under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

Early Redemption: Except as provided in "—*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes—Redemption, Purchase and Options*".

Taxation: All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the Republic of South Africa, unless the withholding is required by law. In that event, the Issuer will (subject to the exceptions in Condition 8 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

ERISA: In general, unless otherwise provided in a supplementary prospectus or the relevant Final Terms, Benefit Plan Investors (as defined in "*ERISA and Certain Other U.S. Considerations*") will be eligible to purchase (or hold any interest in) the Notes. See "*ERISA and Certain Other U.S. Considerations*".

Governing Law: English.

Enforcement of Notes in Global Form: In the case of Global Notes and Global Certificates, individual investors' rights against the Issuer will be governed by a deed of covenant dated on or around 24 October 2013 (the "**Deed of Covenant**"), a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Listing and Trading: Applications have been made for the Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the Market or as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly.

Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the EEA, the United Kingdom, the Republic of South Africa, the Republic of Italy and Japan, see "*Subscription and Sale*".

Bearer Notes will be issued in compliance with United States Treasury Regulations §1.163-5(c)(2)(i)(D) unless (i) the relevant Final Terms states that the Notes are issued in compliance with United States Treasury Regulations §1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982, as amended ("**TEFRA**") or will be considered as being in registered form for U.S. Federal income tax purposes, which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Risk Factors

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed in "*Risk Factors*".

Summary Consolidated Financial and Other Information

The summary financial information set forth below has been derived from the Group's audited consolidated financial statements as at and for the six months ended 30 September 2013 and 2012 and as at and for Financial Years 2013, 2012 and 2011 (the "**Consolidated Financial Statements**") and should be read in conjunction with "*Presentation of Financial and Other Information*", "*Capitalisation and Indebtedness*", "*Operating and Financial Review*", "*Selected Consolidated Financial and Other Information*" and the Consolidated Financial Statements and the accompanying notes thereto included elsewhere in this Base Prospectus.

Consolidated Income Statement Data

	For the six months ended 30 September		For the year ended 31 March		
	2013	**2012**	**2013**	**2012**	**2011**
			(R million)		
Continuing operations					
Revenue	28,461	24,909	50,194	45,900	37,952
Net operating expenses excluding depreciation, derecognition and amortisation	(16,426)	(14,818)	(29,143)	(27,018)	(22,189)
Profit from operations before depreciation, derecognition, amortisation and items listed below	12,035	10,091	21,051	18,882	15,763
Depreciation, derecognition and amortisation	(4,838)	(4,923)	(9,277)	(8,355)	(7,184)
Profit from operations before the items listed below	7,197	5,168	11,774	10,527	8,579
Impairment of assets	(196)	(159)	(588)	(342)	(537)
Post-retirement benefit obligation (costs)/income	(220)	(100)	28	31	(155)
Fair value adjustments	126	113	222	(202)	625
Profit before income/(loss) from associates and joint ventures and net finance costs[1]	6,907	5,022	11,436	10,014	8,512
Income/(loss) from associates and joint ventures	2	14	24	(6)	58
Finance costs	(2,875)	(2,672)	(5,545)	(4,255)	(3,439)
Finance income	127	201	405	488	561
Profit before taxation	4,161	2,565	6,320	6,241	5,692
Taxation	(1,308)	(899)	(1,980)	(2,122)	(1,508)
Profit for the year from continuing operations	2,853	1,666	4,340	4,119	4,184
Discontinued operations					
Loss from discontinued operations	—	—	—	—	(71)
Profit for the year	2,853	1,666	4,340	4,119	4,113
Attributable to equity holder	2,853	1,666	4,340	4,119	4,113

(1) Profit before income/(loss) from associates and joint ventures and net finance costs is referred to throughout this document as operating profit.

Selected Consolidated Statement of Financial Position Data

	As at 30 September		As at 31 March		
	2013	2012	2013	2012	2011
			(R million)		
Property, plant and equipment	185,676	165,326	176,921	155,953	137,836
Investment properties	8,425	7,938	7,938	7,732	7,368
Other investments and long-term financial assets	697	674	671	568	468
Inventories	3,885	3,090	3,400	2,591	2,257
Trade and other receivables	7,172	6,359	6,248	5,615	5,503
Cash and cash equivalents	5,618	8,166	2,598	1,189	10,876
Assets classified as held-for-sale	337	211	275	231	292
Total assets	**218,337**	**194,783**	**203,896**	**178,005**	**167,070**
Total equity	89,516	81,051	84,954	79,421	73,666
Employee benefits	3,063	3,454	3,117	3,322	3,232
Long-term borrowings	75,128	66,370	66,770	52,566	50,452
Deferred taxation liabilities	22,530	18,952	20,471	18,050	15,415
Other non-current financial liabilities[1]	4,858	4,902	6,221	4,200	1,829
Trade payables and accruals	12,223	10,730	11,884	11,151	9,733
Short-term borrowings	5,603	4,823	6,318	5,566	9,578
Short-term provisions	1,144	1,076	991	934	672
Other current financial liabilities[1]	2,272	1,413	1,127	1,025	660
Total current liabilities	21,272	18,162	20,399	18,738	20,744
Total equity and liabilities	**218,337**	**194,783**	**203,896**	**178,005**	**167,070**

(1) R900 million for the provision of excessive tariff increase margin credit raised in the 2012 financial year was reassessed and reclassified as a short-term liability from long-term liability as at 30 September 2012 and 31 March 2013.

Selected Consolidated Cash Flow Data

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012	2013	2012	2011
			(R million)		
Cash flows from operating activities	7,769	7,117	16,776	17,910	13,159
Cash flows utilised in investing activities	(10,778)	(12,280)	(27,241)	(24,661)	(23,018)
Cash flows from/(utilised in) financing activities	6,029	12,140	11,874	(2,936)	12,791
Net increase/(decrease) in cash and cash equivalents from continuing operations	3,020	6,977	1,409	(9,687)	2,932

Other Consolidated Financial and Operating Data

	As at or for the six months ended 30 September		As at or for the year ended 31 March		
	2013	2012	2013	2012	2011
			(R million)		
EBITDA (R million)[1]	11,747	9,959	20,737	18,363	15,754
Adjusted EBITDA (R million)[1]	12,035	10,091	21,051	18,882	15,763
EBITDA margin (per cent.)[2]	41.3	40.0	41.3	40.0	41.5
Adjusted EBITDA margin (per cent.)[2]	42.3	40.5	41.9	41.1	41.5
Operating profit margin (per cent.)[3]	24.3	20.2	22.8	21.8	22.4
Return on average total assets (per cent.)[4]	7.5	7.1	6.0	5.8	5.6
Gearing ratio (per cent.)[5]	44.7	44.6	44.6	42.1	41.1
Interest cover (times)[6]	2.5	2.1	2.2	2.7	3.0
Cash interest cover (times)[6]	3.4	3.3	3.7	4.2	3.9

(1) The Group defines EBITDA as profit for the period after taxation from continuing operations before net finance costs, taxation, depreciation, derecognition and amortisation. The Group defines adjusted EBITDA

as EBITDA adjusted to exclude the impact of impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligation income/(costs) and income/(loss) from associates and joint ventures. The Group excludes these items because it considers them to be non-recurring or not reflective of the ongoing activities of the Group. The Group defines adjusted EBITDA margin as adjusted EBITDA expressed as a percentage of revenue. For further information on management's use of these measures, including the limitations of these measures, see "*Presentation of Financial and Other Information*" and for a reconciliation of these data to the consolidated financial statements, see "*Selected Consolidated Financial and Other Information*".

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012	2013	2012	2011
			(R million)		
Profit for the period from continuing operations	2,853	1,666	4,340	4,119	4,184
Add back:					
Net finance costs	2,748	2,471	5,140	3,767	2,878
Taxation	1,308	899	1,980	2,122	1,508
Depreciation, derecognition and amortisation	4,838	4,923	9,277	8,355	7,184
EBITDA	11,747	9,959	20,737	18,363	15,754
Add back:					
Impairment of assets	196	159	588	342	537
Income/(loss) from associates and joint ventures	(2)	(14)	(24)	6	(58)
Post-retirement benefit obligation income/(costs)	220	100	(28)	(31)	155
Fair value adjustments	(126)	(113)	(222)	202	(625)
Adjusted EBITDA	12,035	10,091	21,051	18,882	15,763

(2) The Group defines EBITDA margin and adjusted EBITDA margin as EBITDA and adjusted EBITDA, respectively, expressed as a percentage of revenue.

(3) The Group defines operating profit margin as profit before income/(loss) from associates and joint ventures, and net finance costs, expressed as a percentage of revenue.

(4) The Group defines return on average total assets as its operating profit for a period expressed as a percentage of average total assets for such period. The Group defines operating profit as profit before income/(loss) from associates and joint ventures and net finance costs. The Group defines average total assets for a financial period as the sum of the total assets at the beginning of the financial period plus the total assets as at the end of the financial period, divided by two.

(5) The Group defines and computes gearing ratio as net debt (defined as long-term borrowings, short-term borrowings, post-retirement benefit obligations, derivative financial liabilities, and overdrafts, less other short-term investments and cash and cash equivalents) expressed as a percentage of the sum of net debt and shareholder's equity.

(6) The Group defines interest cover (times) as its operating profit divided by net finance costs expressed as a ratio. The Group defines cash interest cover (times) as cash generated from operations after working capital changes, divided by net finance costs (which includes capitalised borrowing costs) expressed as a ratio. For these purposes, net finance costs (including capitalised borrowing costs) consist of finance costs and finance income from the statement of cash flows.

RISK FACTORS

An investment in the Notes involves a high degree of risk which may result in investors losing the value of their entire investment or part of it. Prospective investors should carefully read and review this entire Base Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes that could have a significant or material adverse effect on its business, results of operations, financial condition and prospects and/or the repayment of principal and interest under the Notes.

Words and expressions defined in the Conditions or elsewhere in this Base Prospectus have the same meanings in this section. This Base Prospectus contains forward-looking statements that involve risks and uncertainties. Transnet's actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Base Prospectus. See "Cautionary Note Regarding Forward-Looking Statements".

Risks Relating to the Republic of South Africa

Risks relating to Emerging Markets

Investing in an emerging market country such as the Republic of South Africa carries economic risks which are different to those which apply to a more developed country. These risks include economic and/or political instability which may be exacerbated by global economic instability. Such instability in the Republic of South Africa in the past and in other emerging market countries has been caused by many different factors, including the following:

- general economic and business conditions;
- high interest rates;
- changes in exchange rates;
- high levels of inflation;
- exchange controls;
- wage and price controls;
- foreign currency reserves;
- changes in economic or tax policies;
- the imposition of trade barriers;
- changes in investor confidence;
- poverty, labour tensions, unemployment, crime and social inequality;
- negative economic or financial developments in other emerging market countries; and
- perceived or actual security issues and political changes.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes. See "*Overview of the Republic of South Africa and the South African Economy*".

The global financial crisis and economic downturn could continue to adversely affect the South African economy and financial markets

The performance of Transnet's business and operations is closely related to the health of the South African economy, which is in turn affected by the strength of the global economy. The global economy, though recovering from widespread decline over the period from December 2007 to 2012, remains weak and the financial markets remain vulnerable. These conditions have resulted in high volatility, less liquidity or no liquidity, widening of credit spreads and a lack of price transparency in credit and other markets. These conditions may be exacerbated by persisting volatility in the financial sector and the capital markets, or concerns about, or a default by, one or more financial institutions, which could lead to significant market-wide liquidity problems, losses or defaults by other financial institutions. Furthermore, it is not possible to predict what structural and/or regulatory changes may result from the current market conditions or whether such changes may be materially adverse to the South African economy and financial system.

The outlook for the global economy remains highly uncertain and is characterised by varying rates of recovery in different regions of the world. Global economic risk and uncertainty have all increased as a result of deleveraging by banks, limitations on credit, the protracted EU sovereign debt crisis, austerity measures instituted by governments, high levels of household debt, trade imbalances, high unemployment and policy uncertainties. Emerging markets remain the main source of global growth, though there are signs of moderation in some of the systemically significant countries, particularly China, India and Brazil. The rebalancing of the Chinese economy away from fixed capital formation and production toward internal consumption has resulted in a slowdown in growth, which has contributed to the trend of declining global commodity prices.

The deterioration in global growth prospects has negatively affected fixed inward investment into the Republic of South Africa, as well as export growth. Continued decline or stagnation in the economic growth of any of the Republic of South Africa's major trading partners, such as the European Union, could have a material adverse impact on the Republic of South Africa's balance of trade and adversely affect the Republic of South Africa's economic growth. In line with the loss of momentum of global economic recovery, the rate of growth in the Republic of South Africa's real gross domestic product declined from 3.5 per cent. in 2011 to 2.5 per cent. in 2012. In the first quarter of 2013 real growth decelerated to an annualised rate of 0.9 per cent, less than the concurrent pace of population growth, largely due to a contraction in manufacturing output. South Africa's real growth rate rose to an annualised rate of 3 per cent. in the second quarter of 2013, an increase from the growth registered in the first quarter of 2013.

The real value added by the mining sector, an essential driver of Transnet's volumes, declined in 2012 as compared with 2011. Mining production varied on a quarter-to-quarter basis. Having increased at an annualised rate of 14.6 per cent. in the first quarter of 2013, the real value added by the mining sector declined by 5.6 per cent. in the second quarter of 2013. Rapidly rising input costs, productivity impediments and illegal strike action, combined with a falling demand for some mineral products, continued to affect mining operations adversely in South Africa. Furthermore, any instability in the domestic steel and cement industries, which are key volume and revenue drivers for Transnet, could negatively impact the Group. If the uncertain economic situation persists, demand for the goods Transnet transports could be further depressed, in turn decreasing demand for Transnet's services and adversely impacting its business, results of operations, financial condition and prospects.

In addition, because international investors' reactions to the events occurring in one country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, Transnet and the Republic of South Africa could be adversely affected by negative economic or financial developments in other countries. There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence.

Furthermore, domestic financial markets have not been immune to international uncertainty. The fragility of the domestic market has been felt most considerably through the Rand exchange rate which, after a period of relative stability, has experienced significant volatility since August 2011, especially in 2013. The value of the Rand depreciated in the first eight months of 2013 driven by apprehension about a range of factors including South Africa's comparatively large current-account deficit, loss of international competitiveness, electricity-supply constraints, labour unrest, the possibility of weaker global demand for commodities, and concerns about further sovereign debt downgrades. During May 2013 severe industrial action and violent unrest highlighted the risk of further mining-supply disruptions, exacerbating the depreciation of the currency. During this period, the chairman of the U.S. Federal Reserve signaled plans to begin tapering off its quantitative easing programme. This announcement triggered a strong reaction in markets worldwide, with bond yields rising, share prices declining and some emerging market currencies, including the Rand, depreciating significantly. However, on 18 September 2013, the U.S. Federal Reserve indicated that it would not initiate tapering in the short term. Weakness of the Rand may make the financing of the Republic of South Africa's current account deficit more difficult, which in turn would increase Transnet's operating and finance costs. Substantial uncertainty regarding the path of the quantitative easing programme remains, and it is unclear whether financial market anticipation of tapering and the associated tightening in financial market conditions that may result might deter the United States Federal Reserve from tapering again.

Market perceptions concerning the instability of the eurozone could adversely affect the value of the Notes.

Market perceptions concerning the instability or the potential dissolution of the euro could adversely affect the value of the Notes. Despite recent steps taken by the European Commission, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to individual Member States leaving the single currency or, in more extreme circumstances, the possible dissolution of the euro entirely. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Notes.

Capital flows to and from the Republic of South Africa are limited by exchange controls

South Africa has exchange controls that restrict the export of capital without approval from the SARB and limit the extent to which Transnet can borrow funds from non-South African sources for use in the Republic of South Africa. While Transnet determines and proposes its own borrowing needs, it is the SARB that ultimately approves the total amount that Transnet may borrow from non-South African sources. In 1995, the Government began relaxing certain exchange controls and since then has continued gradual relaxation. However, the extent to which the Government may further relax exchange controls cannot be predicted with certainty as relaxation or immediate elimination of current exchange controls may precipitate a change in capital flows to and from the Republic of South Africa. If the net result of this were to cause large capital outflows, this could adversely affect the Republic of South Africa's economy through possible depreciation of the Rand, an increase in interest rates and a decrease in funds available domestically for investment.

HIV/AIDS poses risks to Transnet in terms of lost productivity and increased costs

The incidence of HIV/AIDS in the Republic of South Africa, and specifically amongst the Transnet workforce, is likely to lead to increasing absenteeism, increasing deaths from AIDS-related illnesses, increasing medical and other costs and decreasing productivity. It may also contribute to other human resources challenges, such as difficulty in recruiting and retaining employees. Statistics South Africa estimated that in the middle of 2011, 5.38 million people, or 10.6 per cent. of the South African population, were living with HIV. The potential impact of HIV/AIDS on Transnet's operations and financial condition will be determined by a variety of factors, including the cost and effectiveness of the HIV/AIDS programme deployed by Transnet for the benefit of its employees, the incidence of HIV infection amongst Transnet's employees, the progressive impact of HIV/AIDS on infected employees' health and productivity and the medical and other costs associated with infection.

Based on the HIV/AIDS Actuarial Prevalence Assessment conducted in 2012 by AIDS Risk Consulting (an independent consulting trust), for use in Transnet's pension fund report, 12 per cent. of Transnet's workforce are infected by HIV, although Transnet can give no assurance as to the accuracy of this percentage. While the assessment indicated that Transnet's disease management programme for its medically uninsured employees, together with its medical insurance programme, have proven effective in decreasing the mortality rate due to HIV/AIDS amongst the Transnet workforce, increasing operational efficiency and improving the productivity of the workforce, the incidence of HIV/AIDS amongst Transnet's workforce could adversely impact its business, results of operations, financial condition and prospects.

South Africa's balance of payments is vulnerable to fluctuations in the price of oil imports and key commodities exports. A significant variation in these prices could have a material impact on South Africa's external financing needs, capital inflows and ultimately the Rand's exchange rate.

South Africa's current account deficit (which widened to an annualised 5.8 per cent. of GDP in the first quarter of 2013, but remains below 2008's peak of 7.6 per cent.) is subject to fluctuations in the price of oil imports and key commodities exports. Should the price of oil increase significantly or the price of key exports (specifically platinum group metals, gold, and other mineral exports) fall, the country's current account deficit could widen. South Africa finances its current account deficit largely through portfolio investments into its capital markets. South Africa's highly liquid equity and debt markets (by emerging market standards) have attracted investors, as global markets have stabilised since the financial crisis, but renders the country vulnerable to investor sentiment towards the sovereign and emerging markets in general. The free-floating nature of the Rand decreases fluctuations in balance of payment accounts. However, depreciation may not always re-price South African assets to a sufficiently attractive level to fully restore the financial account surplus. In addition, there is the risk that sustained depreciation or appreciation as a result of the current account position could complicate monetary policy, adversely affect the Rand's exchange rate and act as an investment disincentive.

Socio-economic challenges (in particular poor public services including health and education, high levels of unemployment and income inequality) are acute. Failure to address these could lead to social instability in the longer term.

Serious health issues and a poor public education system are reflected in South Africa's low United Nations Human Development ranking at 121 out of 187 countries. South Africa's Gini coefficient index (63.1, published in 2010) representing income inequality is the second worst of the peer group, according to 2013 World

Development Indicators. According to Statistics South Africa, the unemployment rate was 25.2 per cent. during the first quarter of 2013, which represented zero change from the first quarter of 2012. This rate is expected to decrease only with an annual GDP growth rate of 5 per cent. or greater. There is a risk that these persistent socio-economic challenges might adversely impact South Africa's creditworthiness and give rise to long-term expenditure needs, heightened social pressures and instability and constrain growth.

Risks Related to Transnet's Business

Transnet may not be able to maintain or increase its volumes or its revenues

Transnet's ability to meet revenue targets and achieve, as well as maintain, future growth depends on a number of factors, including its ability to maintain or increase the volume of goods transported through its network.

Transnet's ability to maintain or increase the volume of goods it transports has been adversely affected by the global financial crisis and economic downturn. Further, Transnet's volumes of transported goods could be negatively impacted by several factors, some of which are beyond Transnet's control, including reduced domestic and international demand for commodities and consumer products, derailments, cable theft and industrial action, which could lead to volume decreases at the Group's operating divisions. For instance, in Financial Year 2013, derailments negatively impacted coal and iron ore volumes at Transnet Freight Rail, Transnet National Ports Authority and Transnet Port Terminals, industrial action negatively impacted the volume of goods transported by Transnet Freight Rail and fuel spillages negatively impacted fuel volumes at Transnet Pipelines.

Despite Transnet's overall increases in volume and revenue in Financial Year 2013, Transnet is unable to provide any assurances that it will maintain such growth in the future. Transnet's volumes and revenue also depend upon its ability to maintain, expand and develop relationships with its customers, suppliers, contractors, lenders and other third parties and expand its operating capacity in a timely and reasonable manner. Revenue growth will also depend upon Transnet's ability to renew, win or negotiate favourable terms on future contracts with key clients, such as iron ore and coal producers. There can be no guarantee that conditions will continue to improve and, should volumes decline, it could have a material adverse effect on Transnet's business, results of operations, financial condition or prospects.

The tariffs Transnet charges are subject to review by regulators who may impose tariffs which are insufficient to meet Transnet's revenue requirements

The tariffs charged by Transnet Pipelines and Transnet National Ports Authority for their services and facilities are subject to annual approval by the National Energy Regulator of South Africa ("**NERSA**") and the Ports Regulator (the "**Ports Regulator**"), respectively. As such, Transnet's ability to meet revenue targets and achieve, as well as maintain, future growth depends significantly on the tariffs approved by regulators, who may impose tariffs that are insufficient to meet the needs of Transnet Pipelines and Transnet National Ports Authority. In addition, in the future the Department of Transport of the Government (the "**Department of Transport**") may institute tariff controls or approvals through the establishment of a rail economic regulator, which could negatively affect the revenues for Transnet Freight Rail.

In determining proposals for both tariffs, Transnet uses a revenue requirement model which has been accepted by NERSA through to Financial Year 2014 and has been accepted by the Ports Regulator in relation to the tariff applicable for Financial Years 2013 and 2014. The intended effect of the model is to permit Transnet Pipelines and Transnet National Ports Authority to earn an appropriate return on investment and recover operating expenditures through the regulatory tariff approval mechanism, to provide revenue streams that are sufficient to fund the requirements of the respective businesses and to provide a regulated rate of return on those assets engaged in the respective business that are included within the regulatory asset base. While the revenue requirement model is intended to reduce income risk and facilitate a predictable capital expenditure programme, the model requires the application of judgement regarding those assets to be included in the model, the valuation of assets, depreciation rates, variations between actual and forecasted capital and operating expenditures and inflation levels and indexation.

In this regard, NERSA has set in place tariff methodologies while the Ports Regulator has issued an interim regulatory manual for 2015 with guidance regarding setting tariffs. Although the tariff methodology for petroleum pipelines specifies that an allowance for the maintenance of an appropriate cash interest cover for this business can be recovered through tariffs, judgement is required regarding the level of the ratio and consequently the amount recoverable through tariffs for meeting this ratio.

Failure to receive approval for proposed tariff increases in the amounts and at the times proposed could materially adversely affect Transnet's business, results of operations, financial condition and prospects. See "*Business—Transnet Pipelines—Sources of Revenue and Pricing*" and "*Business—Transnet National Ports Authority—Source of Revenue, Pricing and Tariffs*"

The potential corporatisation of Transnet National Ports Authority and Transnet Pipelines poses risks to Transnet and could constitute events of default under some financing agreements

Transnet National Ports Authority

The National Ports Act, 2005, as amended (the "**Ports Act**") provides for the reorganisation of Transnet National Ports Authority into a separate corporate entity ("**corporatisation**"). On 17 June 2008, the President of the Republic of South Africa (the "**President**") informed Transnet in writing that the Government would not initiate the corporatisation process and that appropriate amendments to the Ports Act will be considered.

On 28 September 2012, at a National Ports Consultative Committee Meeting held in Port Elizabeth, representatives of the Department of Transport, port users and the Ports Regulator agreed to amendments to the Ports Act which would eliminate the requirement for the corporatisation of Transnet National Ports Authority. Additionally, on 10 January 2013, Transnet's Chairman sent a letter to the Minister of Public Enterprises recommending legislative review of the Ports Act be brought forward.

Transnet is currently conducting a comprehensive review of all aspects of the Ports Act, to be tabled at the next meeting of the National Ports Consultative Committee Meeting and presented to the Department of Public Enterprises for discussions with the Department of Transport. The discussions between Transnet and the Department of Public Enterprises are aimed at ensuring that the appropriate amendments to the Ports Act are effected.

The potential corporatisation of Transnet National Ports Authority poses significant risks to Transnet, as it could have a material adverse impact on Transnet, both financially and strategically, and could constitute an event of default under one or more of Transnet's financing agreements.

Transnet Pipelines

Transnet Pipelines applied for and was granted a licence under the Petroleum Pipelines Act, No 60 of 2003 (the "**Petroleum Pipelines Act**"), to construct the New Multi-Purpose Pipeline ("**NMPP**"), which is a project to augment and replace parts of Transnet's existing petroleum pipeline network in order to increase pipeline capacity in an effort to secure fuel supply in the central region of the Republic of South Africa. A levy was charged to consumers of diesel and petrol to help fund the construction of the NMPP. Levy payments commenced in September 2010 and ceased in March 2013.

One of the conditions of the levy was that Transnet provide the Department of Energy with explicit details on the progress of the corporatisation of Transnet Pipelines. The corporatisation of Transnet Pipelines is intended to enhance the accountability, transparency, governance and administration of the levy fund.

Transnet has been conducting on-going discussions with the Department of Public Enterprises and has argued that without cash injections from the Group, Transnet Pipelines' gearing would not be commercially viable in the debt capital markets. The impact of the corporatisation of Transnet Pipelines will increase its cost of borrowing, further reducing its cash interest cover ratio, which could lead to greater reliance on NERSA's approved tariff rates for Transnet Pipelines' revenue requirements. While the Department of Public Enterprises agreed with Transnet that there is no immediate need for the corporatisation of Transnet Pipelines, it nevertheless indicated that government policy could require such corporatisation in the future. On 5 February 2013, the Chairman of Transnet wrote to the Minister of Public Enterprises requesting that the Minster reconsider any plans for the corporatisation of Transnet Pipelines.

On 24 May 2013, the Minister of Public Enterprises responded to Transnet's Chairman stating that he had written to the Ministers of Finance and Energy recommending that the condition requiring the corporatisation of Transnet Pipelines be temporarily waived. The Minister of Public Enterprises also informed Transnet that it would therefore be required to provide audited ring-fenced divisional accounts from the time of the granting of the levy.

Furthermore, the Minister of Public Enterprises reiterated that Government policy may necessitate the corporatisation of Transnet Pipelines in the future, in which case the issue would be re-examined.

Transnet is awaiting the response from the Ministers of Finance and Energy through the office of the Minister of Public Enterprises.

The potential corporatisation of Transnet Pipelines poses significant risks to Transnet, as it could have a material adverse impact on Transnet, both financially and strategically, and could constitute an event of default under some of Transnet's funding agreements.

Transnet risks losing substantial assets to nationalisation by the Government should the National Environmental Management: Integrated Coastal Management Act, 2008 be fully enacted in its current form

The main objective of the National Environmental Management: Integrated Coastal Management Act, 2008 (the "**ICM**"), is to provide for the coordinated and integrated management of the coastal zone by the Government in order to preserve, protect, extend and enhance the status of South African coastal public property. Pursuant to the ICM, all property and areas within a defined coastal zone are converted into "coastal public property" which is to be held in trust for the citizens of the Republic of South Africa. Initially, it was unclear whether the ICM would apply to Transnet's approximately R31 billion of port assets (book value at that time) that lie within the coastal property zone. Transnet appealed to the Department of Environmental Affairs (the "**DEA**") to amend the ICM or, alternatively, to exclude Transnet from the application of the ICM before it came into effect. Transnet subsequently obtained a letter from the Minister of Water and Environmental Affairs acknowledging that the ICM creates unintended consequences for Transnet and that a decision had therefore been taken to delay the commencement of those sections of the ICM which would place Transnet at risk. The Minister of Water and Environmental Affairs proposed further that proposals would be made on how to resolve the matter for the long term in order to try and ensure that Transnet's assets and operations within the ports are secure, in order for Transnet to properly fulfil its port authority functions.

When the ICM came into operation on 1 December 2009, certain sections that could have otherwise required Transnet to transfer assets to the Government were therefore specifically excluded from coming into operation. The purpose of excluding those sections was to provide both Transnet and the Government with the opportunity to address those provisions of the ICM that impact on Transnet's ownership of port assets.

Transnet, through the Shareholder Representative, submitted proposals for the amendment of the ICM to the DEA. The Draft National Environmental Management: Integrated Coastal Management Amendment Bill (the "**Draft ICM Amendment Bill**"), was thereafter tabled in the Parliament of the Republic of South Africa ("**Parliament**") in 2012 but Transnet was concerned that it did not adequately protect Transnet's port assets. As a result, Transnet submitted its comments on the Draft ICM Amendment Bill to the Parliamentary Portfolio Committee and public hearings were held on 23 and 24 July 2013, with Transnet making oral submissions on 24 July 2013. The Parliamentary Portfolio Committee subsequently requested the DEA amend the Draft ICM Amendment Bill to ensure Transnet suffered no expropriation of its port assets, which the DEA accepted. The amended Draft ICM Amendment Bill is currently under review by the Parliamentary Portfolio Committee. Once finalised, it will be submitted to the National Council of Provinces and thereafter to the National Assembly for approval and referral to the President for signature into law.

Transnet believes that the amendments to the Draft ICM Amendment Bill will protect Transnet's ownership of port infrastructure. However, Transnet can give no assurance that the problematic sections of the ICM will be permanently amended or that Transnet will be excluded from its remit. Should Transnet be required to transfer any of its ports assets to the Government, it could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects.

Transnet is exposed to funding risk as a result of its significant capital expenditure plans and the need to repay or refinance outstanding indebtedness

Transnet's businesses require a substantial amount of capital and other long-term expenditures, including those relating to the replacement and refurbishment of rolling stock, the completion of the NMPP, the expansion and refurbishment of existing ports, container terminal facilities, railway lines and other infrastructure projects, as well as the maintenance of Transnet's existing infrastructure. As a result, Transnet is dependent on access to domestic and international capital markets and lenders in order to meet its funding requirements. Under the seven-year Capital Expenditure Programme, Transnet has approximately R307.5 billion of capital expenditures planned from Financial Year 2014 to Financial Year 2020 (excluding capitalised borrowing costs of R10.540 billion and including R38,666 million of planned capital expenditure from 1 April 2012 to the end of September 2013) and approximately R31.3 billion of short-term and long-term debt maturing in the next seven

Financial Years (commencing with Financial Year 2014) that will need to be repaid or refinanced (including R11,321 million of debt re-payable from 1 April 2012 to the end of September 2013). Over the next seven Financial Years, Transnet plans to raise R67.9 billion from domestic and international capital markets. Of this R67.9 billion, Transnet currently intends to use R31.3 billion to repay short- and long-term debt maturing in the next seven Financial Years. As at 30 September 2013, Transnet had cash on hand of R5,618 million as a result of its pre-funding strategy. The entire R5,618 million cash on hand will be used in Financial Year 2014 to meet Transnet's funding requirements. In addition, the Company expects to raise R15.6 billion from the domestic and international capital markets to meet its funding requirements in Financial Year 2014. See *"Business—Capital Expenditure Programme"* and *"Operating and Financial Review—Liquidity and Capital Resources—Capital Expenditure Programme"*.

Transnet does not receive subsidies or other funding from the Government and does not expect to in the future. As a result of the recent global financial and sovereign debt crisis, widening of credit spreads and yields on South African and other government debt and increased domestic and international competition for funding (including competition from the Republic of South Africa and other state owned companies), Transnet expects that funding may be more scarce and expensive than in the past and although Transnet believes it will be able to fund its needs appropriately, there is no guarantee that Transnet will be able to secure funding to meet its needs in a timely basis or on commercially reasonable terms, if at all. Transnet's ability to arrange external financing and the cost of such financing are dependent on numerous factors, including its future financial condition, general economic and capital market conditions, interest rates, the availability of credit generally from banks and other lenders, competition for funding in domestic and international markets, investor confidence in Transnet, applicable provisions of tax and securities laws, and political and economic conditions in the Republic of South Africa and other relevant jurisdictions. Transnet's ability to raise funds in international markets is also subject to approval by South African Exchange Control Regulations (see "*Exchange Controls*"). If Transnet is unable to generate or obtain funds sufficient to make, or is otherwise restricted from making, necessary or desirable capital expenditure and other investments, it may be unable to maintain or grow its business and may be required to revise its Capital Expenditure Programme. These circumstances, or an inability to obtain funding to repay or refinance maturing indebtedness, could have a material adverse effect on Transnet's credit rating, business, results of operations, financial condition and prospects.

Transnet is subject to risks associated with the age and impaired condition of its equipment and infrastructure

Transnet's business and operations depend upon the performance of its equipment and other working assets, such as its locomotives, wagons and infrastructure. Transnet's success also depends on the successful operations of its infrastructure, including its network of ports, rails and freight lines. As its equipment and infrastructure age, their performance or effectiveness become impaired, often leading to decreased productivity as well as delays and costly maintenance. In recent years Transnet has incurred substantial costs and devoted significant time and resources to replacing and sustaining outdated equipment. Any decrease in asset performance could negatively impact Transnet's business.

Historically, however, Transnet has not adequately invested in replacing impaired or underperforming assets, or in the scheduled maintenance that its business required. This lack of maintenance has been a particular problem for both rail lines and rolling stock of Transnet Freight Rail and as a result assets may not perform at the required level. Transnet also has a backlog of maintenance work for rail lines, wagons and locomotives and other railway infrastructure such as depots and signalling systems. In recent years, Transnet has improved its maintenance programmes and has budgeted substantial amounts for infrastructure maintenance under its Capital Expenditure Programme. In the event that Transnet is unable to replace, maintain or repair its infrastructure in a timely manner, it will face decreased asset performance as well as increased maintenance costs, delays and lost revenue due to unscheduled stoppages and derailments. Asset impairment and inadequate maintenance may reduce Transnet's competitive position and could have an adverse impact on Transnet's business, results of operations, financial condition and prospects.

Transnet faces a number of risks relating to its ability to deliver its capital projects on time and within budget

Capital expansion and construction projects, including those currently in Transnet's Capital Expenditure Programme, typically require substantial capital expenditure throughout the development phase and may take months or years before they become operational, during which time Transnet is subject to a number of construction, financing, operating and other risks, many of which are beyond its control including but not limited to:

- availability of materials, equipment and electricity;
- availability of skilled and unskilled labour;

- increases in capital costs (including materials, engineering and construction costs) and/or operating costs (including costs of staff, services, utilities and supplies), including as a result of foreign exchange rate movements;
- foreign exchange rate movements;
- the inability to attract additional volumes, align Transnet's expansion plans with customers' plans as new capacity is created and protect current volumes against new entrants and customer dissatisfaction;
- instability in the financial markets resulting in loans being recalled, credit rating downgrades and systemic deterioration of the financial system;
- uncertainty concerning the security of energy supply;
- failure to achieve expected returns or volumes on capital projects, resulting in non-productive assets for which funding still needs to be serviced and settled;
- inadequate information technology and communication infrastructure, as well as technological utilisation to enable the business to function sufficiently;
- labour disputes and disputes with contractors and sub-contractors;
- environmental regulations and activism, including the need to perform feasibility studies and conduct remediation activities which can delay project start dates and completion;
- accidents and other safety concerns;
- political, social and economic conditions; and
- changes in laws, rules, regulations and governmental priorities.

Transnet manages some of these risks by entering into Engineering, Procurement and Construction Management contracts, which provide Transnet with access to specialised skills in its capital projects delivery.

If one or more of these risks materialises, it may adversely affect Transnet's ability to complete its current or future projects on schedule and within the estimated budget, and may prevent Transnet from achieving the projected revenue, internal rates of return and capacity expected from such projects and to deliver the desired business outcomes.

Transnet is dependent upon key personnel, skilled and highly-skilled employees

Transnet's continued success is dependent, in part, on retaining its senior officers and employees, many of whom have significant experience within Transnet and may be difficult to replace, and in part on its ability to attract and retain top quality management and key staff.

Transnet's success is also dependent upon skilled employees and, in common with similar businesses in the Republic of South Africa, Transnet has experienced shortages of such employees in the past and expects it will do so in the future. The loss of senior officers, experts and skilled employees, or the inability to recruit and retain skilled employees, could negatively impact Transnet's ability to successfully implement its business strategy, which could in turn have a material adverse effect on Transnet's business, results of operations, financial condition and prospects.

Transnet may be required to incur significant costs in order to comply with environmental laws and regulations

Transnet's operations are subject to laws and regulations governing, amongst other things, the loading, unloading and storage of hazardous materials and the protection of the environment, which laws and regulations change from time to time and are generally becoming more complex and restrictive. The cost of compliance with environmental laws and regulations has been significant and is expected to continue to be significant due to a growing body of environmental legislation and Transnet may be liable for damages should an environmental violation occur. Transnet has experienced instances of non-compliance with environmental laws, mainly due to historical pollution and/or contamination. Different interpretations of new laws might also result in instances of non-compliance, due to the complexity of the legislation. A process to seek internal agreement on interpretation of legislation, backed-up by external review of the law by either the environmental authorities or by external legal counsel, has been instituted. Although Transnet believes that to date its non-compliance with environmental laws has not had a material adverse impact on it, the costs of complying with environmental laws, the imposition of civil or criminal liability for violations of environmental laws and/or liability for damages arising under environmental lawsuits or proceedings could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects. Additionally, if required environmental authorisations and permits are not issued, capital projects could be delayed. Furthermore, while Transnet maintains insurance coverage for environmental incidents, there is no guarantee that its insurance will be adequate to cover the possible costs of environmental matters, including the costs of litigation (which includes damages, fines and penalties) and remediation.

Transnet is subject to risks associated with the availability and cost of key inputs for its business and the business of its key clients

Key input items in Transnet's cost base, including salaries and other personnel costs, energy costs, material costs, maintenance costs, operating lease costs and equipment costs are sensitive to increases in general price levels in the Republic of South Africa and elsewhere. Transnet's business and profitability could be adversely affected if the costs of its basic inputs materially increase and these costs cannot be recovered from customers.

Electricity

Transnet's expenditure on electricity increased significantly in Financial Year 2013 (to 10.26 per cent. of total operating expenditure) in comparison to Financial Year 2012, and is likely to continue to increase in the foreseeable future. However, NERSA appears to be implementing a policy of above inflation electricity tariff increases with Financial Years 2011, 2012 and 2013 seeing increases of 24.8 per cent., 25.8 per cent. and 16 per cent., respectively. In February 2013 NERSA determined that the electricity prices charged by Eskom Holdings SOC Ltd ("**Eskom**"), the state owned generator of electricity in the Republic of South Africa, would be increased by 8 per cent. per annum over the next five years (from Financial Year 2014) rather than the 16 per cent. as requested by Eskom. Increases in energy costs will result in increases in operating costs both for Transnet and for its clients, some of which are substantial consumers of electricity. Such increases could adversely impact the profitability of Transnet's clients, which could in turn result in reductions in volumes of goods transported by Transnet and downward pressure on Transnet's revenues. Furthermore, Transnet's operations and the operations of its key customers could be adversely affected by electricity shortages. During 2007 and 2008, the Republic of South Africa experienced electricity shortages that resulted in rolling blackouts and load shedding by Eskom. During some of these rolling blackouts, Transnet's operations and the operations of its key customers were disrupted. Additionally, Eskom has experienced and is continuing to experience electricity capacity expansion challenges mainly as a result of poor contractor performances and labour unrest. While slower economic growth has reduced demands for electricity, management believes that over the MDS implementation period, electricity consumption could increase up to 65 per cent., whereas Eskom currently plans to increase electricity production by 27 per cent. over the same period. It is therefore possible that demand will increase prior to the increases in electricity generation capacity planned for the medium-term, which could cause future load shedding and rolling blackouts. Such blackouts could severely disrupt or delay Transnet's operations and the businesses of its key customers, which could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects.

Fuel

Transnet's fuel expense increased in Financial Year 2013 (to 8.51 per cent. of its total operating expenditure, slightly above budgeted costs of R2.3 billion for fuel expenses, or 7.25 per cent. of budgeted total operating expenses) in comparison to Financial Year 2012. Transnet has budgeted for approximately R2.5 billion in fuel expenses for Financial Year 2014, which is equal to 7 per cent. of its budgeted total operating expenses. Instability caused by imbalances in the worldwide supply and demand for oil, and the global economic downturn, has resulted in significant fluctuations in fuel prices. As at 30 September 2013, a majority of the customer contracts relating to Transnet Freight Rail's general freight business contain price adjustment clauses to account for changes in fuel prices. Price adjustments under these contracts are typically made monthly and reflect both increases and decreases in fuel prices. Transnet Freight Rail therefore shares the risk associated with fuel price volatility with clients that are party to such contracts. The coal and iron-ore contracts however are subject to period price adjustments based on various formulae which may not adequately reflect annual increases in Transnet's fuel costs. Any future increase in the cost of fuel could therefore negatively impact Transnet's business, results of operations, financial condition and prospects.

Transnet has a fuel hedging policy under which it may hedge up to 75 per cent. of annual budgeted consumption. As at 30 September 2013, 30 per cent. of Transnet Freight Rail's diesel consumption is hedged for Financial

Year 2014 against currency and commodity price fluctuations. However, there can be no assurance that Transnet will continue to have adequate access to fuel, that Transnet's hedging policies will succeed in limiting its exposure to fluctuations in the fuel price or that Transnet will succeed in passing on fuel price increases to its customers. See "*Operating and Financial Review—Qualitative and Quantitative Disclosures about Market Risk—Commodity Price Risk*".

Steel and other materials

In Financial Year 2013, the cost of steel, cement and other materials critical to projects that are part of Transnet's Capital Expenditure Programme increased in comparison to Financial Year 2012 (from 8.54 per cent. of total operating expenditure in Financial Year 2012 to 8.89 per cent. in Financial Year 2013). A further increase in the costs of these key inputs may negatively impact Transnet's results of operations. To the extent that Transnet must import these materials, Transnet endeavours to price these contracts in Rand. Whenever possible, Transnet immediately enters into hedging agreements if the contracts for imported materials are priced in foreign currencies. However, Transnet is exposed to the risk of foreign exchange rate fluctuations until Transnet contracts for such purchases and enters into related hedging agreements. See "*Transnet is exposed to risks associated with exchange rate fluctuations*".

Inflation in the cost of other inputs

Consumer price inflation in the Republic of South Africa, as measured by the CPI, averaged 4.3 per cent. in 2010, 5.0 per cent. in 2011 and 5.6 per cent. in 2012. The Bureau for Economic Research at the University of Stellenbosch has forecasted that CPI in calendar year 2013 will reach 6.0 per cent. A return to significant inflation in the Republic of South Africa could significantly increase Transnet's operating costs and have a material adverse effect on its business, results of operations, financial condition and prospects.

Inflation, as well as the scarcity of qualified personnel, has contributed to escalating wage costs in the Republic of South Africa in the past several years, which may increase further in the future. Transnet's salary costs have increased at or above inflation levels in the Republic of South Africa, in large part as a result of collective bargaining agreements with unions and routine, performance-based salary increases. These salary costs are likely to continue to increase.

Transnet may not be able to pass along increased costs to its customers as a result of competitive pressures, contractual provisions, regulatory limits on tariffs and other factors. Accordingly, if the recent inflationary trend continues, or if the costs of fuel, electricity and labour continue to increase, there can be no assurance that Transnet will be able to maintain or increase its margins. Furthermore, many of Transnet's suppliers may seek to pass on increases in material or other costs to Transnet. Any increases in the prices of materials or other goods or services purchased by Transnet could impair Transnet's ability to complete new infrastructure and other projects on time and within budget. The occurrence of any of the foregoing could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects.

Transnet is exposed to risks associated with exchange rate fluctuations

Transnet has foreign currency denominated debt and payment obligations in foreign currencies under its Capital Expenditure Programme, as well as for other expenditures within the normal course of business, which amounted to R22.5 billion denominated in U.S. dollars and R3.7 billion denominated in Japanese Yen as of 30 September 2013. As a policy matter, Transnet seeks to hedge all foreign currency payment obligations at the time the contractual agreements are entered into, although no assurances can be given that hedging transactions will be fully effective. Accordingly, Transnet is exposed to the risk of cost increases for capital expenditures in currencies other than Rand until such time as such expenditures are contracted and hedged into Rand. The maximum amount of unhedged foreign currency denominated debt and payment obligations in foreign currencies is limited to one per cent. of annual budgeted capital expenditure and 0.5 per cent. of annual budgeted operational expenses. Where possible, foreign currency exposures are reduced by entering into Rand denominated supplier and funding agreements. Fluctuations in foreign currency exchange rates may also lead to fluctuations in the valuations of financial assets and liabilities and related derivative financial instruments, which could result in significant losses or volatility in Transnet's income statement. Furthermore, domestic political uncertainty has the potential to weaken the value of the Rand, exposing Transnet to currency transaction costs for capital expenditures in currencies other than the Rand. Fluctuations in currency exchange rates could therefore adversely affect Transnet's results of operations, financial condition and prospects. See "*Operating and Financial Review—Qualitative and Quantitative Disclosures about Market Risk—Foreign Currency Risk*".

Transnet is subject to risks associated with interest rate changes

Transnet is exposed to fluctuations in interest rates, which historically have fluctuated significantly in the Republic of South Africa. As of 30 September 2013, the aggregate principal amount of Transnet's variable interest rate indebtedness was R16.06 billion or approximately 19.9 per cent. of total indebtedness. Transnet seeks to manage interest rate risk through the use of financial hedging instruments within the parameters of its Board of Directors' approved policy, although no assurance can be given that hedging transactions will be fully effective. Notwithstanding hedging transactions, interest rate fluctuations could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects. See "*Operating and Financial Review—Qualitative and Quantitative Disclosures about Market Risk—Interest Rate Risk*".

Transnet is subject to industrial action as a result of having a unionised workforce and may be adversely affected by changes in labour laws

A significant feature of Transnet's workforce is the high level of unionisation. If disagreements arise between Transnet and the unions, there is a risk that strikes or other types of industrial conflict may occur.

While relationships between Transnet and its employees' unions are governed by collective agreements that provide the framework for engagement, consultation, negotiation and shop steward governance, if strikes or other industrial conflicts occur, these could adversely affect Transnet's business, results of operations, financial condition and prospects. See "*Business—Employees*".

Transnet is also subject to South African labour laws that provide for mandatory compensation to employees in the event of unfair termination of employment as well as administrative and reporting requirements in respect of employment equity compliance. Non-compliance with existing labour law, as well as changes to labour law that introduce higher monetary penalties for non-compliance than under existing labour law, may adversely affect Transnet's business.

Licences necessary for Transnet's businesses may expire, be revoked or not be renewed

Transnet conducts its operations pursuant to licences granted to it by a number of regulators. There can be no assurance, however, that Transnet's licences will be renewed, that they will be extended or that they will not be revoked.

For example, pursuant to the Ports Act, Transnet is deemed to hold all licences required to operate the terminals and facilities in each of its ports, including the recently opened Port of Ngqura. Transnet built and equipped the Port of Ngqura in accordance with applicable legislation and in November 2011, Parliament approved the decision to direct the Transnet National Ports Authority to licence Transnet Port Terminals to operate in the Port of Ngqura for an interim period of three years, "subject to Transnet National Ports Authority beginning a competitive process for the licensing of the Port of Ngqura in accordance with the Ports Act". As such, there can be no assurance that after the expiry of the interim licence, Transnet Port Terminals will retain the right to operate the Port of Ngqura.

A loss of the operational licence for the Port of Ngqura, or any of Transnet's material licences, could have a material adverse effect on Transnet's business, financial condition and results of operation.

Transnet's business is exposed to operational risks

Transnet's businesses, like all similar businesses, are subject to many and varied operational risks, which could result in losses, delays and business interruption and could adversely impact Transnet's ability to provide services to its customers or ensure the timely delivery of customer cargo. These risks include, but are not limited to the following:

- inadequate or failed internal systems and processes, including those for identifying, managing and controlling risks and those related to information technology;
- equipment failures due to, among other things, the age of Transnet's infrastructure, demand in excess of capacity or inadequate maintenance;
- failure to comply with regulatory requirements;
- theft of copper cables and other infrastructure; and

- other operational risks specific to the transportation industry, including land disaster, mechanical failure, collisions, loss of life, injury, property losses to fixed assets, decreases or disturbances in commodity production, cargo loss or damage.

Although Transnet has implemented risk controls and mitigation programmes and substantial resources are devoted to developing efficient and effective procedures and to staff training, it is not possible to be certain that such procedures will be effective in identifying, managing and controlling each of the operational risks faced by Transnet.

The operation of any transportation related activity carries with it an inherent risk of catastrophe, collision and loss of life or property as a result of equipment failure, natural disasters, severe weather, human error, acts of terrorism and other circumstances or incidents that are outside of Transnet's control. Collisions, spills, other environmental mishaps or other accidents can result in business interruption, damage to or loss of Transnet's assets or cargoes and serious bodily injury, death and extensive property damage, particularly when such accidents occur in heavily populated areas. In such circumstances, Transnet may not be able to rebuild or repair its property or restore operations in a timely manner, or at all, and could be subject to extensive liability.

Transnet maintains insurance that it believes is consistent with industry practice within the Republic of South Africa against the accident-related risks involved in the conduct of its business. However, this insurance may not be sufficient to cover, in whole or in part, damages to Transnet or others and this insurance may not continue to be available on similar terms or at commercially reasonable rates. In addition, the severity or frequency of events may result in losses or expose Transnet to liabilities in excess of its insurance cover. Transnet does not fully insure against certain risks. Should an incident occur in relation to which Transnet has no insurance cover or inadequate insurance cover, it may be financially liable for related losses. Losses or third party claims for damages could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects.

If any of these risks materialise, it could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Transnet is exposed to risks and costs related to health and safety

Transnet's operations are subject to health and safety laws and regulations designed to improve and to protect the safety and health of employees and the public. Although Transnet believes it complies in all material respects with applicable regulations, in Financial Year 2013 and the six months ended 30 September 2013 there were fatalities and injuries at some of Transnet's operations. Safety incidents may lead to business interruptions, loss of assets, harm to employees and the public, damage to the environment and adverse publicity resulting in damage to Transnet's reputation. The costs of complying with health and safety laws and regulations, the imposition of civil or criminal liability for violations and/or liability for damages arising under personal injury or other legal actions could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects. In addition, if these laws and regulations were to change and if material expenditure were then required in order to comply with such new laws and regulations, this could adversely affect Transnet's business, results of operations, financial condition and prospects. See "*Business—Health and Safety*" and "*Regulation*".

Additional security requirements, or the failure to pass security reviews, may increase Transnet's operating costs and restrict its ability to conduct its business

In recent years, various international bodies and governmental agencies and authorities have implemented numerous security measures that affect Transnet's ports and container terminal operations and the costs associated with such operations.

Transnet has embarked on several security upgrade projects, in order to comply with applicable minimum security requirements but failure on Transnet's part to comply with the security requirements applicable to it or to obtain relevant security-related certifications may, among other things, prevent certain shipping line customers from using its facilities or result in higher insurance premiums. In addition, new security measures or updated regulatory compliance requirements may be introduced at any time. Ensuring Transnet's compliance with such measures or requirements may involve considerable time, cost and resources on its part. The costs associated with existing and any additional or updated security measures may negatively affect Transnet's results of operations to the extent that it is unable to recover the full amount of such costs from its customers, who generally have also faced increased security-related costs. Similarly, additional security measures that require Transnet to increase the scope of its operating procedures may effectively reduce the capacity of, and increase congestion at, its terminals and other facilities. Continued or increased costs of compliance with freight transportation and other security requirements applicable to Transnet may negatively affect Transnet's business, results of operations, financial condition and prospects.

Transnet's customer concentration and dependence on a few large industrial companies and their suppliers expose it to risks

Over the previous three Financial Years, Transnet's customer concentration has remained significant. In Financial Years 2013, 2012 and 2011, Transnet's twelve most significant customers comprised 49 per cent., 40 per cent. and 42 per cent., respectively, of its year-end trade receivables carrying amount. In Financial Year 2013, Anglo American, Arcelor Mittal, BHP Billiton, Assmang, Sasol and Xstrata generated 9.2 per cent., 6.8 per cent., 8.4 per cent., 5.7 per cent., 7.3 per cent. and 6.0 per cent. respectively, of Transnet's total revenue. The Group's largest operating division's, Transnet Freight Rail's, ten largest customers generated approximately 59 per cent. of its revenue. Transnet's volumes and revenues in its Freight Rail division are primarily dependent on Transnet's relationships with a core group of customers, most of whom operate in the mining sector. Transnet's dependency upon core clients exposes it to risks associated with a slowdown or downturn, particularly in the mining sector, and the risk that such a slowdown or downturn in the economy at large will similarly affect most of its core customers at the same time.

Transnet is seeking to establish long-term coal transportation contracts across its divisions with a number of its customers. As part of this strategy, Transnet has allowed agreements with certain clients to expire, with the intention of entering into a single agreement covering all of the services offered to a particular customer across Transnet's divisions. As of the date of this Base Prospectus, Transnet is currently negotiating the terms of these new long-term coal contracts with its major export coal customers. Although Transnet has enjoyed good working relationships with these customers to date, there can be no assurance that, in the absence of signed contracts, Transnet can rely on ongoing business from these customers. There can be no assurance that Transnet will retain its current customers' business, or that their business, if lost, could be replaced by that of other customers on comparable terms, at comparable volumes and/or at comparable prices, if at all. The loss of, or failure to replace, one or more of Transnet's larger customers could materially and adversely affect Transnet's business, results of operations, financial condition and prospects.

In addition, Transnet is exposed to credit risk with respect to its customers. While Transnet seeks to limit its credit risk by setting credit limits for individual customers, obtaining financial guarantees from some customers and monitoring outstanding receivables, its customers may default on their obligations to Transnet. Transnet's credit risk is increased by the fact that many of its largest customers operate in the same industry and therefore may be similarly affected by changes in economic and other conditions. Delayed payment, non-payment or non-performance on the part of one or more of Transnet's larger customers, or a number of its smaller customers, could have a material adverse effect on its business, results of operations, financial condition and prospects.

The interests of Transnet's controlling shareholder may conflict with those of the Noteholders

As at the date of this Base Prospectus, the Government owns 100 per cent. of Transnet's issued share capital. See "*Shareholder—Shareholder Compact*". The Government is therefore able to determine the outcome of all matters concerning Transnet that may be decided by shareholders. The interests of the Government may conflict with the interests of the Noteholders and the Government may require Transnet to take actions that may adversely affect the Noteholders' investment. See "*Shareholder*".

Transnet is subject to a wide variety of laws and regulations and may incur material costs or face substantial liabilities if it fails to comply with existing or future laws or regulations

Transnet's operations are subject to extensive laws and regulations governing, among other things, anti-competitive behaviour, economic transformation, procurement practices, employment equity and equity participation matters. Transnet's failure to interpret correctly or comply with all applicable laws and regulations could lead to civil liabilities, administrative or other penalties and/or increased regulatory scrutiny. For the most serious violations, Transnet could be forced to suspend operations until it obtains necessary certifications, permits or licences or otherwise brings its operations into compliance. In addition, changes to existing regulations or the introduction of new regulations or licensing requirements could adversely affect its business by reducing its revenue, increasing its operating costs, or both, and Transnet may be unable to effectively mitigate the impact of such changes. See "*Regulation*".

Competition could adversely affect Transnet

Transnet faces competition from a number of other domestic and international freight transportation and logistics providers. Although Transnet believes that it has been able to compete successfully to date, there can be no assurance that it will be able to do so in the future, and any failure to do so could have a material adverse effect on Transnet's business, results of operations, financial condition and prospects. See "*Business—Competition*".

Risks Related to the Structure of a Particular Issue of Notes

Set out below is a brief description of certain risks relating to the structure of a particular issue of Notes:

The Notes may be subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of the Notes. During any period when Transnet may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

Transnet may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate Notes are subject to additional risks

Fixed/Floating Rate Notes may bear interest at a rate that Transnet may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Transnet's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then-prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If Transnet converts from a floating rate to a fixed rate, the fixed rate may be lower than then-prevailing rates on its Notes.

Notes issued at a substantial discount or premium are subject to increased volatility

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Notes may be redeemed prior to their final maturity date for tax or other reasons

In the event that Transnet is obliged to increase the amounts payable in respect of any Tranche due to certain changes affecting taxation in the Republic of South Africa or any political subdivision thereof, it may redeem all but not some of the outstanding Notes of such Tranche in accordance with the Conditions, exposing Noteholders to the reinvestment risk described above.

The Notes contain provisions that permit Transnet to amend the Conditions without the consent of all Noteholders

The Notes contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly referred to as "collective action clauses". Under these provisions, certain key provisions of the Notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of the holders of 75 per cent. of the aggregate principal amount of the outstanding Notes. See "*Terms and Conditions of the Notes—Meetings of Noteholders and Modification*". Such changes will be binding on all holders of the relevant Notes, even if they voted against the relevant amendment.

Risks Related to the Notes Generally

Set out below is a brief description of certain risks relating to the Notes generally.

The EU Savings Directive may result in withholding tax on the Notes

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or an amount in respect of, tax were to be withheld from that payment, neither Transnet nor any Paying Agent or Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent or Transfer Agent, Transnet will be required to maintain a Paying Agent and a Transfer Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

The European Commission has proposed certain amendments to the Savings Directive, which if implemented may broaden the scope of the requirements described above.

Changes in law may adversely affect the Notes

The Conditions are governed by English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change in English law or administrative practice after the date of issue of the relevant Notes.

Definitive Notes will not be issued in integral multiples of less than €100,000

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Risks Related to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

Transnet cannot assure investors that an active, stable or liquid secondary market for the Notes will develop

Transnet cannot predict whether an active trading market will develop for any Notes issued under the Programme and, if a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes. Consequently, there can be no assurance that holders of the Notes will be able to resell their Notes at or above the applicable Issue Price.

The Notes may be subject to exchange rate risks and exchange controls

Transnet will pay principal and interest on the Notes in the currency specified in the terms and conditions of the Notes or, if none is specified, the currency in which the Notes are denominated (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease the Investor's Currency-equivalent yield on the Notes, the Investor's Currency-equivalent value of the principal payable on the Notes and the Investor's Currency-equivalent market value of the Notes. In addition, where a Noteholder has made a Currency Election as provided in Condition 7(d) to have a payment on the relevant Notes made in an Alternative Currency, it will be dependent upon the Exchange Agent being able to acquire the relevant Alternative Currency with the Specified Currency in which the Notes are otherwise payable. Any Noteholder considering making a Currency Election should carefully consider the terms of Condition 7 in relation thereto and the procedures and risks associated therewith, including the timing of and the steps required for a valid Currency Election, the risks referred to above, the risk that the Exchange Agent may not for whatever reason make the payment in the relevant Alternative Currency and the risk that the Applicable Exchange Rate will be determined by the Exchange Agent relying on its internal foreign exchange rate (which may include third party indices forming the basis of such conversion rate) and may therefore be different from any exchange rate used by the Noteholder for hedging purposes or otherwise. All costs of the purchase of the relevant Alternative Currency shall be borne *pro rata* by the relevant Noteholders who have made a valid Currency Election. Neither the Issuer nor the Exchange Agent will be liable for any difference between the actual amount received in the Alternative Currency and the amount due and payable had the relevant payment been made in the Specified Currency. See "*Terms and Conditions of the Notes*".

Fixed rate notes are subject to interest rate risks

An investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Because the Global Notes are held by or on behalf of Euroclear, Clearstream, Luxembourg or DTC, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Notes may be represented by one or more Global Notes (in the case of Bearer Notes) or Global Certificates (in the case of Registered Notes). Such Global Notes and Regulation S Global Certificates will be deposited with a Common Depositary, or in the case of Rule 144A Global Certificates, and if the relevant Final Terms so specify, with a Common Depositary or with the Custodian.

Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes or Global Certificates, as the case may be, the Issuer will discharge its payment obligations under the Notes by making payments to the Common Depositary or Custodian, as the case may be, for distribution to their account holders. A holder of a beneficial interest in a Regulation S Global Certificate must rely on the procedures of Euroclear or Clearstream, Luxembourg to receive payments under the Notes. A holder of a beneficial interest in a Rule 144A Global Certificate must rely on the procedures of Euroclear, Clearstream, Luxembourg or DTC, as applicable, to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market factors, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, revised or withdrawn by the rating agency at any time.

The trading market for the Notes may be volatile and may be adversely impacted by many events

The market for the Notes is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in the United States and European and other industrialised countries. There can be no assurance that events in the Republic of South Africa, the United States, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect.

Transfers of the Notes will be restricted, which may adversely affect the value of the Notes

The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws and Transnet has not undertaken to effect any exchange offer for the Notes in the future. Investors may not offer the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. The Notes and the Agency Agreement will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the Securities Act. Furthermore, Transnet has not registered the Notes under any other country's securities laws. It is each investor's obligation to ensure that its offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "*Transfer Restrictions*". These transfer restrictions may adversely affect the value of the Notes.

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

(1) the terms and conditions set out on pages 132-148 of the Base prospectus dated 8 March 2012;

(2) the terms and conditions set out on page 19 in supplement number 2 dated 28 January 2010 to the Base Prospectus dated 20 August 2010);

(3) the terms and conditions set out on pages 147-168 of the Base Prospectus dated 20 August 2010 (as amended by the terms and conditions set out on page 19 in supplement number 2 dated 28 January 2011 to the Base Prospectus dated 20 August 2010); and

(4) the terms and conditions set out on pages 144-165 of the Base Prospectus dated 26 January 2010.

Copies of the documents containing the information incorporated by reference in this Base Prospectus can be obtained, free of charge, from the registered office of Transnet as set out at the end of this Base Prospectus or Transnet's website at http://www.transnet.net. For the avoidance of doubt, Transnet's website is not incorporated by reference in this Base Prospectus.

Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant for the investor or is covered elsewhere in this Base Prospectus.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Base Prospectus constitute "forward-looking statements". This Base Prospectus contains certain forward-looking statements in various sections, including, without limitation, under the headings "*Overview*", "*Risk Factors*", "*Operating and Financial Review*" and "*Business*". Transnet may from time to time make written or oral forward-looking statements in reports to its shareholder, holders of debt securities and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of Transnet's plans, objectives or goals, including those related to its strategy, products and services;
- statements of future economic performance, financial position and results of operations;
- statements of assumptions underlying such statements; and
- any other statements other than statements of historical fact.

Forward-looking statements that may be made by Transnet from time to time (but that are not included in this Base Prospectus) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

Words such as "aim," "anticipates," "believes," "continue," "could," "estimates," "expects," "forecast," "guidance," "intends," "may," "plans," "potential," "predict," "project," "targets," "will," "would," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the effects of, and changes in, the policy of the Government;
- availability of funding in domestic and international capital markets, and in particular, Transnet's ability to raise sufficient capital to fund its current and future capital expenditure plans, including the Capital Expenditure Programme;
- Transnet's ability to operate its business and carry out its current and future capital expenditure plans and other obligations;
- Transnet's ability to project that the planned expenditures under the Capital Expenditure Programme are sufficient to meet the goals of the Capital Expenditure Programme or that actual costs will be as anticipated;
- the ability of Transnet's current rail lines, container terminals, port facilities and pipelines to satisfy current and ongoing demand;
- Transnet's ability to upgrade and/or expand its existing rail lines, container terminals, port facilities and pipelines and to develop new facilities;
- Transnet's ability to develop, enhance and implement strategies to adapt to changing conditions in the freight rail, port, container terminal and pipeline industry and segments;
- Transnet's ability to set prices in accordance with tariffs set by government agencies that reflect changing market conditions;
- expectations regarding the future of the freight transportation industry in the Republic of South Africa;
- competition from road freight and other transportation logistics providers;
- the effects of domestic and international political events on Transnet's business;
- the impact of regulatory initiatives including labour laws, taxation, health and safety regulations, environmental laws, security requirements adopted by various international bodies and governmental agencies and the Ports Act, among others;
- Transnet's competitive strengths and weaknesses;
- the effects of electricity shortages and load shedding on Transnet's business and that of its customers;

- the effects of economic conditions in the Republic of South Africa, including GDP growth, increases or decreases in inflation or changes to interest rates or foreign exchange rates;
- worldwide economic conditions, inflation and deflation, monetary conditions and policies of central banks, interest rates, exchange rates and financial market conditions generally;
- acts of war, terrorist acts, geopolitical events, pandemic or other such events, natural and other disasters, adverse weather and similar events;
- the ability to hedge risk economically; and
- Transnet's success at managing the risks of the aforementioned factors.

Additional factors that could cause actual results, performances or achievements to differ materially include, but are not limited to, those discussed under the heading "*Risk Factors*". Forward-looking statements speak only as of the date of this Base Prospectus and, except as required by applicable law, rule or regulation, Transnet expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements in this Base Prospectus to reflect any change in its expectations or any change in events, conditions or circumstances on which these forward-looking statements are based.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the aforementioned factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Transnet operates. Such forward-looking statements speak only as at the date on which they are made and are not subject to any continuing obligations under any guidelines issued by the London Stock Exchange. Accordingly, except as required by applicable law, rule or regulation, Transnet does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, provided that the Issuer will update this Base Prospectus as required by, and in accordance with, applicable listing rules and regulations. Transnet does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial and calendar years

The Group's financial year ends on 31 March. In this Base Prospectus, in order to distinguish between financial years and calendar years, the following conventions are adopted: (i) calendar years are referred to as "calendar year [YEAR]" or simply "[YEAR]", (ii) the Group's financial year is referred to as the "year ended or year ending 31 March [YEAR]", as "Financial Year [YEAR]" or as "Financial Year". For example, the 12 month period ended 31 March 2013 is referred to as Financial Year 2013.

The Group's financial half-year ends on 30 September. In this Base Prospectus, the financial half-year is referred to as "the six months ended 30 September [YEAR]".

Financial Years and the financial half-year are referred to collectively as "Financial Periods".

Financial information

This Base Prospectus contains audited consolidated financial statements for the Group as at, and for the six months ended 30 September 2013 and 2012 and as at, and for Financial Years 2013, 2012 and 2011, which have been prepared in accordance with IFRS as issued by the IASB. The Group's financial statements are presented in Rand, which is the Group's presentational currency.

Operating Divisions and Segment Reporting

The Group operates and manages its business principally by divisions. Its current divisions are: Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines. The Group's principal business segments were, for the periods under review, Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals, Transnet Pipelines and other. Unless otherwise specified herein, references to segment revenue are to segment total revenue, including external and internal revenue.

Presentation of Non-IFRS Measures

This Base Prospectus contains certain non-IFRS measures, including "EBITDA" and "EBITDA margin,", "adjusted EBITDA" and "adjusted EBITDA margin", "return on average total assets," "gearing ratio," "total debt-to-total capital employed," "interest cover (times)," "cash interest cover (times)," and "operating cash flow to total debt".

The Group has presented EBITDA, adjusted EBITDA and the associated margin and the other non-IFRS measures noted above as it believes that they enhance an investors' understanding of the Group's financial performance and because it uses these measures in its business operations to evaluate the performance of its operations. These measures are not a measure of a company's financial performance or earnings under IFRS and as such should not be viewed as an alternative to profit, operating profit or other measures of earnings under IFRS. Nor should these measures be viewed as an alternative to cash flow from operating activities or as a measure of liquidity. Transnet uses these measures as supplemental measures of operating performance because they are measures that are regularly used by security analysts, rating agencies, investors and other parties to evaluate a company's operating performance. Transnet also believes that these measures serve as a useful indicator of Transnet's ability to incur and service its indebtedness. EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. One should exercise caution in comparing EBITDA as reported by the Group to EBITDA of other companies.

The Group defines EBITDA as profit for the period after taxation from continuing operations before net finance costs, taxation, depreciation, derecognition and amortisation. The Group defines adjusted EBITDA as EBITDA adjusted to exclude the impact of impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligation income/(costs) and income/(loss) from associates and joint ventures. The Group excludes these items because it considers them to be non-recurring or not reflective of the ongoing activities of the Group. The Group defines EBITDA margin as EBITDA expressed as a percentage of revenue. The Group defines adjusted EBITDA margin as adjusted EBITDA expressed as a percentage of revenue. For further information on the reconciliation of these measures to measures disclosed in the Consolidated Financial

Statements and Interim Consolidated Financial Statements, see "*Overview—Summary Consolidated Financial and Other Information*". EBITDA and adjusted EBITDA should not be considered an indication of the Group's performance or as an alternative to cash flows as a measure of the Group's liquidity as determined in accordance with IFRS and should not be considered in isolation, because their ability to convey meaningful information is limited in various respects. For example, EBITDA and adjusted EBITDA, among other things:

- do not reflect any cash capital expenditure requirements for the assets being depreciated and amortised that may have to be replaced in the future;
- do not reflect any impairments of assets, such as property, plant, and equipment, subsidiaries and associates, loans and advances, and trade and other receivables;
- do not reflect changes in, or cash requirements for, the Group's working capital needs; and
- do not reflect the significant financial cost of, or the cash requirements necessary to service interest payments on, the Group's debts.

The Group defines "operating profit" as profit before income/(loss) from associates and joint ventures and net finance costs. The Group defines "operating profit margin" as profit before income/(loss) from associates and joint ventures, and net finance costs, expressed as a percentage of revenue.

The Group defines "return on average total assets" as its operating profit for a period expressed as a percentage of average total assets for such period. "Average total assets" for the period is defined as the sum of the total assets (consisting of current and non-current assets) at the beginning of Financial Year plus the total assets as at the end of the last two Financial Years, divided by two. The Group defines "gearing ratio" as net debt (as defined below) expressed as a percentage of the sum of net debt and shareholders' equity. Net debt is defined as interest-bearing borrowings (both short and long term), post-retirement benefit obligations, derivative financial liabilities (both short and long term) plus bank overdrafts, all less short term investments and cash and cash equivalents.

The Group defines "interest cover (times)" as its operating profit divided by net finance costs. The Group defines "cash interest cover (times)" as cash generated from operations after working capital changes, divided by net finance costs expressed as a ratio. For these purposes, net finance costs consist of finance costs (including capitalised borrowing costs) and finance income from the statement of cash flows.

These non-IFRS measures have important limitations as analytical tools and investors should not consider them in isolation or as substitutes for analysis of the Group's results as reported under IFRS. These and similar measures are used by different companies for different purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing these measures as reported by Transnet to the measures as reported by other companies.

Currency

In this Base Prospectus, the following currency terms are used:

- "**South African Rand**", "**Rand**", "**R**" or "**ZAR**" refers to the lawful currency of the Republic of South Africa;
- "**U.S. Dollar**," "**$**," "**USD**" or "**U.S.$**" refers to the lawful currency of the United States;
- "**British Pounds**," "**Pounds**" or "**£**" refers to the lawful currency of the United Kingdom;
- "**Euro**," "**€**" or "**EUR**" refers to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
- "**Australian Dollars**" or "**AUD**" refers to the legal currency of Australia; and
- "**Japanese Yen**," "**JPY**," "**Yen**" or "**¥**" refers to the legal currency of Japan.

Exchange Rates

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rand and the U.S. Dollar, based on the exchange rate quoted by the I-Net Bridge (Pty) Limited. Fluctuations in the exchange rates between the Rand and the U.S. Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. The rates may differ from the actual rates used in the preparation of the Group's Consolidated Financial Statements and other financial information appearing in this Base Prospectus. The Issuer makes no representation that the Rand or U.S. Dollar amounts referred to in this Base Prospectus have been, could have been or in the future could be converted to Rand or U.S. Dollars at any particular rate, or at all. On 30 September 2013, the official exchange rate quoted by I-Net Bridge (Pty) was R10.0254 to $1.

	High(1)	Low(2)	Period average(3)	Period end(4)
		(Rand per U.S. Dollar)		
Month ended				
31 December 2011	8.4531	7.9519	8.1871	8.0684
31 January 2012	8.2358	7.7197	7.999	7.7900
29 February 2012	7.8787	7.3959	7.636	7.4716
31 March 2012	7.7800	7.4244	7.5924	7.6620
30 April 2012	8.0497	7.6041	7.8285	7.7659
31 May 2012	8.5844	7.6887	8.1602	8.5006
30 June 2012	8.7024	8.1393	8.3729	8.1393
31 July 2012	8.5486	8.055	8.2327	8.2599
31 August 2012	8.4966	8.042	8.2642	8.3870
30 September 2012	8.4665	8.1222	8.2619	8.3048
31 October 2012	8.9945	8.1626	8.6517	8.6684
30 November 2012	9.0081	8.5857	8.8018	8.8976
31 December 2012	8.9237	8.3978	8.5979	8.3978
31 January 2013	9.1605	8.3978	8.5979	8.3978
28 February 2013	9.0577	8.6699	8.8707	9.0274
31 March 2013	9.3654	8.9920	9.1888	9.2336
30 April 2013	9.3107	8.8543	9.0961	8.9772
31 May 2013	10.283	8.8979	9.3607	10.0771
30 June 2013	10.3615	9.6581	10.0039	9.8696
31 July 2013	10.2976	9.6097	9.8944	9.8532
31 August 2013	10.5084	9.7248	10.0767	10.2676
30 September 2013	10.3464	9.5377	9.959	10.0254
Year ended 31 December				
2011	8.6041	6.5219	7.2532	8.0684
2012	9.0081	7.3959	8.2027	8.3978

(1) The highest daily average of the exchange rates recorded on each business day of the relevant month or year as applicable.

(2) The lowest daily average of the exchange rates recorded on each business day of the relevant month or year as applicable.

(3) The average exchange rate for each relevant month or year as applicable calculated using the daily average exchange rate.

(4) The average daily exchange rate on the last business day of each relevant month or year as applicable

See also "*Operating and Financial Review—Significant Factors Affecting the Group's Past Financial Condition and Results of Operations—Volatility of the Rand*".

Rounding

Rounding adjustments have been made in calculating some of the financial information included in this Base Prospectus. As a result, numerical figures shown as totals in some tables may not be exact sums of the figures that precede them.

Market Data

The Issuer has obtained certain statistical and market information that is presented in this Base Prospectus on such topics as the South African transportation industry, the South African economy in general and related subjects from the following third-party sources:

- the Government;
- the SARB;

- I-Net Bridge (Pty) Ltd; and
- Statistics South Africa.

This third-party information is presented in the following sections of this Base Prospectus: "*Overview*", "*Risk Factors*," "*Operating and Financial Review*", "*Business*" and "*Overview of South Africa and the South African Economy*".

The Issuer takes responsibility for the accurate reproduction of such information and, as far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Issuer's estimates are based on such third-party information. None of the Issuer, the Arranger or the Dealers has independently verified the figures, market data or other information on which third parties have based their studies.

Industry Measures

The Issuer employs a number of metrics to quantify volume, throughput and other industry-related measures. In this Base Prospectus, the following terms used have the following definitions:

- *GCH* means gross crane moves per hour;
- *GTK* means gross tonne kilometres: it is a unit of measurement of the total gross weight (in metric tonnes) of general freight loaded and empty active wagons multiplied by the distance (in kilometres) travelled by the general freight locomotives;
- *km* means kilometre;
- *m* means metre;
- *mt* means metric tonne (also called long tonne), a measure commonly used for bulk freight;
- *mtpa* means metric tonnes per annum;
- *ml.km* means million litre kilometres;
- *mV* means million volumes;
- *STAT* means ship turnaround time (in days);
- *TAT* means turnaround time (in days);
- *TEU* means twenty-foot equivalent unit, an inexact unit of cargo capacity used to describe the capacity of container ships and terminals. The TEU corresponds to a standard shipping container measuring 20 feet long and 8 feet wide, the height of which can vary;
- *Tonne kilometre* is a unit of measurement of the freight transportation performed by a railroad during a given period, usually a year, the total of which consists of the sum of the products obtained by multiplying the aggregate weight of each shipment in metric tonnes during the given period by the number of kilometres for which it is carried;
- *mt/h* means metric tonnes per hour; and
- *Vol* means volume.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the Financial Services and Markets Act 2000 ("**FSMA**"), the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

The Issuer has given an undertaking to the Arranger and the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or material inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in, or removal from, this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, then the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Arranger and each Dealer such number of copies of such supplement hereto as such Arranger or Dealer may reasonably request.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Notes are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will, during any period that it is neither subject to Sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Notes or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be used by Transnet SOC Ltd to fund its Capital Expenditure Programme and for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth Transnet's historical capitalisation as at 30 September 2013. Prospective investors should read this information in conjunction with "*Use of Proceeds*," "*Operating and Financial Review*" and the Consolidated Financial and the notes thereto included elsewhere in this Base Prospectus. Except as disclosed in the footnotes below, there has been no material change in the capitalisation of Transnet since 30 September 2013.

	As at 30 September 2013
	(R millions)
Total short-term debt(1)	5,603
Long-term debt(2)	75,128
Total Indebtedness	80,731
Shareholders' equity	
Issued share capital	12,661
Reserves	76,855
Total capital and reserves	**89,516**
Total capitalisation(3)(4).	**170,247**

(1) Consists of short-term borrowings.
(2) Consists of long-term borrowings.
(3) Consists of short- and long-term borrowings and capital and reserves.
(4) Transnet concluded a drawdown of R1.1 billion from the Import-Export Bank of the United States, with the proceeds received on 3 October 2013.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated income statement data, consolidated balance sheet data and consolidated cash flow data as at and for the six months ended 30 September 2013 and 2012 and as at and for Financial Years 2013, 2012, and 2011 of the Group have been derived from the Group's Consolidated Financial Statements, which are included elsewhere in this Base Prospectus.

The selected consolidated financial information has been derived from, and should be read in conjunction with, the Consolidated Financial Statements and the related notes thereto included elsewhere in this Base Prospectus, as well as the section entitled "*Operating and Financial Review*".

The selected non-IFRS consolidated income statement, statement of financial position and statement of cash flows and operating data presented under the caption "*Other Consolidated Financial and Operating Data*" has been calculated using information from the Consolidated Financial Statements included elsewhere in this Base Prospectus.

Consolidated Income Statement Data

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012	2013	2012	2011
	(R million)				
Continuing operations					
Revenue	28,461	24,909	50,194	45,900	37,952
Net operating expenses excluding depreciation, derecognition and amortisation	(16,426)	(14,818)	(29,143)	(27,018)	(22,189)
Profit from operations before depreciation, derecognition, amortisation and items listed below	12,035	10,091	21,051	18,882	15,763
Depreciation, derecognition and amortisation	(4,838)	(4,923)	(9,277)	(8,355)	(7,184)
Profit from operations before the items listed below	7,197	5,168	11,774	10,527	8,579
Impairment of assets	(196)	(159)	(588)	(342)	(537)
Post-retirement benefit obligation (costs)/income	(220)	(100)	28	31	(155)
Fair value adjustments	126	113	222	(202)	625
Profit before income/(loss) from associates and joint ventures and net finance costs(1)	6,907	5,022	11,436	10,014	8,512
Income/(loss) from associates and joint ventures	2	14	24	(6)	58
Finance costs	(2,875)	(2,672)	(5,545)	(4,255)	(3,439)
Finance income	127	201	405	488	561
Profit before taxation	4,161	2,565	6,320	6,241	5,692
Taxation	(1,308)	(899)	(1,980)	(2,122)	(1,508)
Profit for the year from continuing operations	2,853	1,666	4,340	4,119	4,184
Discontinued operations					
Loss from discontinued operations	—	—	—	—	(71)
Profit for the year	2,853	1,666	4,340	4,119	4,113
Attributable to equity holder	2,853	1,666	4,340	4,119	4,113

(1) Profit before income/(loss) from associates and joint ventures and net finance costs is referred to throughout this document as operating profit.

Selected Consolidated Statement of Financial Position Data

	As at 30 September		As at 31 March		
	2013	2012	2013	2012	2011
			(R million)		
Property, plant and equipment	185,676	165,326	176,921	155,953	137,836
Investment properties	8,425	7,938	7,938	7,732	7,368
Other investments and long-term financial assets	697	674	671	568	468
Inventories	3,885	3,090	3,400	2,591	2,257
Trade and other receivables	7,172	6,359	6,248	5,615	5,503
Cash and cash equivalents	5,618	8,166	2,598	1,189	10,876
Assets classified as held-for-sale	337	211	275	231	292
Total assets	**218,337**	**194,783**	**203,896**	**178,005**	**167,070**
Total equity	89,516	81,051	84,954	79,421	73,666
Employee benefits	3,063	3,454	3,117	3,322	3,232
Long-term borrowings	75,128	66,370	66,770	52,566	50,452
Deferred taxation liabilities	22,530	18,952	20,471	18,050	15,415
Other non-current financial liabilities(1)	4,858	4,902	6,221	4,200	1,829
Trade payables and accruals	12,223	10,730	11,884	11,151	9,733
Short-term borrowings	5,603	4,823	6,318	5,566	9,578
Short-term provisions	1,144	1,076	991	934	672
Other current financial liabilities(1)	2,272	1,413	1,127	1,025	660
Total current liabilities	21,272	18,162	20,399	18,738	20,744
Total equity and liabilities	**218,337**	**194,783**	**203,896**	**178,005**	**167,070**

(1) R900 million for the provision of excessive tariff increase margin credit raised in the 2012 financial year was reassessed and reclassified as a short-term liability from long-term liability as at 30 September 2012 and 31 March 2013.

Selected Consolidated Cash Flow Data

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012	2013	2012	2011
			(R million)		
Cash flows from operating activities	7,769	7,117	16,776	17,910	13,159
Cash flows utilised in investing activities	(10,778)	(12,280)	(27,241)	(24,661)	(23,018)
Cash flows from/(utilised in) financing activities	6,029	12,140	11,874	(2,936)	12,791
Net increase/(decrease) in cash and cash equivalents from continuing operations	3,020	6,977	1,409	(9,687)	2,932

Other Consolidated Financial and Operating Data

	As at or for the six months ended 30 September		As at or for the year ended 31 March		
	2013	2012	2013	2012	2011
EBITDA (R million)(1)	11,747	9,959	20,737	18,363	15,754
Adjusted EBITDA (R million)(1)	12,035	10,091	21,051	18,882	15,763
EBITDA margin (per cent.)(2)	41.3	40.0	41.3	40.0	41.5
Adjusted EBITDA margin (per cent.)(2)	42.3	40.5	41.9	41.1	41.5
Operating profit margin (per cent.)(3)	24.3	20.2	22.8	21.8	22.4
Return on average total assets (per cent.)(4)	7.5	7.1	6.0	5.8	5.6
Gearing ratio (per cent.)(5)	44.7	44.6	44.6	42.1	41.1
Interest cover (times)(6)	2.5	2.1	2.2	2.7	3.0
Cash interest cover (times)(6)	3.4	3.3	3.7	4.2	3.9

(1) The Group defines EBITDA as profit for the period after taxation from continuing operations before net finance costs, taxation, depreciation, derecognition and amortisation. The Group defines adjusted EBITDA as EBITDA adjusted to exclude the impact of impairment of assets, dividends received, fair value adjustments, post-retirement benefit obligation income/(costs) and income/(loss) from associates and joint

ventures. The Group excludes these items because it considers them to be non-recurring or not reflective of the ongoing activities of the Group. The Group defines adjusted EBITDA margin as adjusted EBITDA expressed as a percentage of revenue. For further information on management's use of these measures, including the limitations of these measures, see "*Presentation of Financial and Other Information*". These measures are reconciled to the measures in the Consolidated Financial Statements as follows:

	For the six months ended 30 September		For the year ended 31 March		
	2013	**2012**	**2013**	**2012**	**2011**
			(R million)		
Profit for the period from continuing operations	2,853	1,666	4,340	4,119	4,184
Add back:					
Net finance costs	2,748	2,471	5,140	3,767	2,878
Taxation	1,308	899	1,980	2,122	1,508
Depreciation, derecognition and amortisation	4,838	4,923	9,277	8,355	7,184
EBITDA	11,747	9,959	20,737	18,363	15,754
Add back:					
Impairment of assets	196	159	588	342	537
Income/(loss) from associates and joint ventures	(2)	(14)	(24)	6	(58)
Post-retirement benefit obligation income/(costs)	220	100	(28)	(31)	155
Fair value adjustments	(126)	(113)	(222)	202	(625)
Adjusted EBITDA	12,035	10,091	21,051	18,882	15,763

(2) The Group defines EBITDA margin and adjusted EBITDA margin as EBITDA and adjusted EBITDA, respectively, expressed as a percentage of revenue.

(3) The Group defines operating profit margin as profit before income/(loss) from associates and joint ventures, and net finance costs, expressed as a percentage of revenue.

(4) The Group defines return on average total assets as its operating profit for a period expressed as a percentage of average total assets for such period. The Group defines operating profit as profit before income/(loss) from associates and joint ventures and net finance costs. The Group defines average total assets for a financial period as the sum of the total assets at the beginning of the financial period plus the total assets as at the end of the financial period, divided by two.

(5) The Group defines and computes gearing ratio as net debt (defined as long-term borrowings, short-term borrowings, post-retirement benefit obligations, derivative financial liabilities, and overdrafts, less other short-term investments and cash and cash equivalents) expressed as a percentage of the sum of net debt and shareholder's equity.

(6) The Group defines interest cover (times) as its operating profit divided by net finance costs expressed as a ratio. The Group defines cash interest cover (times) as cash generated from operations after working capital changes, divided by net finance costs (which includes capitalised borrowing costs) expressed as a ratio. For these purposes, net finance costs (including capitalised borrowing costs) consist of finance costs and finance income from the statement of cash flows.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of the Group's financial condition and results of operations is based on the Consolidated Financial Statements prepared in accordance with IFRS. This discussion should be read in conjunction with the information in "Selected Consolidated Financial and Other Information", "Presentation of Financial and Other Information," the Consolidated Financial Statements and the notes thereto appearing elsewhere in this Base Prospectus.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those expressed or implied in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Risk Factors" and "Cautionary Note Regarding Forward-looking Statements".

Overview

Transnet is a public company and was incorporated by the Government under the Companies Act, 1973, on 1 April 1990, pursuant to the Legal Succession Act with the Government as its Shareholder. Transnet was formed as a result of the transfer of the commercial enterprise of the South African Transport Services to Transnet as the country's railway, port and pipeline operator. With effect from 1 May 2011, Transnet changed its name from Transnet Limited to Transnet SOC Ltd.

Transnet is the operator, owner and custodian of a major portion of the Republic of South Africa's transport infrastructure, specifically its railway, ports and pipelines. Transnet is a focused freight transport company with the goal of delivering integrated, efficient, safe, reliable and cost-effective services. Transnet's key mandate, as defined by its Shareholder Compact with the Shareholder Representative, is to assist in lowering the cost of doing business, enabling economic growth in the Republic of South Africa and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost effective manner. Transnet seeks to promote economic growth in the Republic of South Africa by providing its customers with access to world-class integrated logistics solutions and by creating transport capacity ahead of demand. Transnet's strategic focus areas are informed by the National Development Plan, which aims to create 11 million jobs by 2030 and reduce the unemployment rate to 6 per cent. and the Statement of Strategic Intent governmental initiatives issued by the Minister of Public Enterprises.

Substantially all of Transnet's revenues are generated in the Republic of South Africa. Over the past seven Financial Years, Transnet has transformed from a diversified conglomerate into a focused rail, port and pipeline operator. Transnet has accomplished this through the sale, closure or transfer of non-core assets and businesses. Transnet's continuing operations are grouped into five divisions according to major transport modes, with central support services unified under one brand. For operational and reporting purposes, Transnet is organised into the following five core business divisions: Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines. The "Other Division" includes Transnet Property, Transnet Capital Projects, Transnet Corporate Centre, and Transnet Foundation. The five core business divisions and the Other Division combined are referred to as the Group.

Transnet Freight Rail is the largest of Transnet's operating divisions by revenue and number of employees. Transnet Freight Rail is focused on transporting bulk and containerised freight along an approximately 20,500 kilometre route rail network.

Transnet Engineering consists of nine product-focused business units that provide services ranging from refurbishment, conversion and upgrades, to the manufacturing and assembly of rail related rolling stock. Most of Transnet Engineering's sales are generated from sales to Transnet Freight Rail and the Passenger Rail Agency of South Africa.

Transnet National Ports Authority is responsible for the safe, efficient and effective economic functioning of the national ports system of the Republic of South Africa, which it owns and manages in a landlord capacity on behalf of the Government. Transnet National Ports Authority is the provider of port infrastructure and marine services at all eight fully operational commercial ports in the Republic of South Africa.

Transnet Port Terminals manages 16 cargo terminals situated across seven of the eight South African ports. It provides cargo handling services for container, bulk, break-bulk and automotive cargos.

Transnet Pipelines transports a range of petroleum and gas products through approximately 3,800 kilometres of underground pipelines, traversing five provinces in the Republic of South Africa, with the strategic objective of ensuring the security of the supply of petroleum products to the inland market.

For the six months ended 30 September 2013, the Group generated revenue of R28,461 million, operating profit of R6,907 million and profit for the period of R2,853 million. For Financial Year 2013, the Group generated revenue of R50,194 million, operating profit of R11,436 million and profit for the year of R4,340 million. For Financial Year 2012, the Group generated revenue of R45,900 million, operating profit of R10,014 million and profit for the year of R4,119 million.

Pursuant to the Group's MDS, Transnet's Capital Expenditure Programme, which commenced in Financial Year 2013, provides for Transnet's continuing operations to invest R307.5 billion (excluding capitalised borrowing costs of R10.54 billion) over the next seven Financial Years on key corridors and sectors. See "—*Strategy*". The Group's spending under the Capital Expenditure Programme for the six months ended 30 September 2013 (excluding capitalised borrowing costs) amounted to R11.2 billion, with R6.2 billion spent to maintain current infrastructure and equipment and R5 billion spent on expanding capacity. The Group's spending under the Capital Expenditure Programme for Financial Year 2013 (excluding capitalised borrowing costs) amounted to R27.5 billion, with R16.2 billion spent to maintain current infrastructure and equipment and R11.3 billion spent on expanding capacity.

Transnet currently estimates that R121.5 billion will be invested in the next three Financial Years (excluding capitalised borrowing costs). Transnet currently estimates that of the total seven-year R307.5 billion Capital Expenditure Programme, R188.5 billion will be spent on expanding capacity and R119.0 billion will be spent on sustaining existing infrastructure and equipment.

In response to the R307.5 billion capital investment plan, driven by the MDS, Transnet will fund approximately R67.9 billion of the R307.5 billion planned investment through borrowings and will fund the balance from its own revenues. The Capital Expenditure Programme is reviewed and updated annually by the Board of Directors and is subject to change.

Transnet is funded through reserves and borrowings and does not receive cash subsidies from the Government. Transnet raises funds in the debt markets based on the strength of its own balance sheet and it has raised funding without government guarantees since 2005. As a result, Transnet needs to earn an appropriate return on its assets that will allow for the maintenance and expansion of the rail, port and pipeline infrastructure that it owns and operates, while maintaining a strong balance sheet. Notes issued under the Programme are not guaranteed by the Government.

Significant Factors Affecting the Group's Past Financial Condition and Results of Operations

Economic Review

Transnet and its principal customers' businesses are closely connected to the South African economy and may be materially affected by conditions in the South African economy, such as inflation rates, commodity price movements, general economic conditions and interest rates. Inflation and certain commodity price movements had a significant impact on Transnet's revenues and net operating expenses in recent financial years.

The following table sets forth certain summary statistics regarding the economy of the Republic of South Africa for calendar years ended 31 December 2011 and 31 December 2012 and the six-month period ended 30 June 2013.

GDP Summary

	As at or for the year ended 31 December		As at or for the six-month period ended 30 June
	2011	2012	2013[(1)]
Nominal GDP (millions of Rand) at market prices	2,917,539	3,155,195	3,326,891
Real GDP (millions of Rand)[(2)]	1,905,736	1,954,303	1,988,373
Real GDP Growth (percentages)	3.5	2.5	3.0
Population (million)	50.0	50.6	51.8
Per capita GDP (nominal)	58,350	62,355	64,225
Per capita GDP (real)[(2)]	38,114	38,662	38,385

(1) SARB Quarterly Bulletin for September 2013.
(2) At 2005 prices.

See "*Overview of South Africa and the South African Economy*" for further detail on the South African economy.

The South African economy has been affected by the slow global economic recovery and continued uncertainty in the market which continued in the first half of 2012. The pace of the global economic recovery remains uncertain as events in the world's advanced economies and in the eurozone adversely impacted on overall growth and confidence. During 2012, the eurozone's worsening debt crisis resulted in a number of incumbent governments being replaced or facing strong opposition, further constraining the degree of freedom available to policy-makers in resolving the crisis. Conversely, growth in developing economies, led by China, maintained fairly robust momentum, which continued to provide support to a wide range of commodity prices. In a number of developing economies, inflation concerns arising from food and energy prices and, in some instances, from a general overheating of the economy prompted policymakers to tighten monetary policy.

Global economic growth improved slightly in the second quarter of 2013 and was significantly higher than the rates of increase in output registered in the four preceding quarters. The improvement was visible in both the advanced and the emerging economies, and in part reflected sustained policy efforts directed at generating greater traction in the economic recovery. While governments in some parts of the world continued with programmes to reduce fiscal stimulus, monetary policy in the main advanced economies remained highly expansionary in the first half of 2013 through both low policy interest rate settings and quantitative easing measures. While the recent improved global growth data is positive for the South African growth outlook, domestic and wider emerging markets trends warrant some caution. In particular, growth in South Africa in 2013 is set to be heavily impacted by industrial action across a number of sectors.

While gross fixed-capital formation by the public sector expanded in South Africa at an annual rate of 5.7 per cent. during the 2013 fiscal year, supported by strong spending by state-owned companies, in particular Transnet, Eskom and the South African National Roads Agency SOC LTD ("**SANRAL**"), private sector investment grew at a weaker pace in the second quarter of 2012 in comparison to the second quarter in 2011. This is was the result of weaker business confidence, domestic supply constraints and low levels of demand that caused South African corporations to restrain from significant new project developments. In addition, the spread of industrial action since August 2012 depressed activity in related industries and lowered growth prospects. The South African National Treasury estimated that the total value of production lost to platinum and gold mining strikes and stoppages since the start of 2012 to 27 February 2013 has amounted to approximately R10.1 billion.

The South African economy continued to expand in the first half of 2012, recording a growth rate of 3.0 per cent. First-half 2012 production was held back by industrial action in the mining and manufacturing sectors, as well as supply disruptions. The contribution to growth from mining has been negligible with mining volumes 6.8 per cent. below their March 2007 peak as of June 2012. In the manufacturing sector, the recovery has subsided due to weaker external demand. Performance has been varied, with strong output growth in petrochemicals, food and beverages, and motor vehicles, in comparison to the sharp fall in output in the metals subsector. The tertiary sectors maintained robust growth in the first-half of 2012, led by the financial, real estate, business services, wholesale and retail trade sectors, which have all performed positively. Increased activity in the South African equity, bond and other financial markets simultaneously bolstered growth in real value added by the finance sector, although conditions in the South African banking subsector remain subdued.

At the July 2012 meeting of the MPC, the repurchase rate was lowered from 5.5 per cent. to 5 per cent. with effect from 20 July 2012. This decision was brought about by concerns over continued sluggishness in the domestic economy, as well as protracted problems in the eurozone and their possible knock-on effects on the South African economy. Although global and domestic growth conditions weakened further in the subsequent months, the repurchase rate was left unchanged at the MPC's September 2012 meeting. Inflation is expected to have increased during the fourth quarter of 2012 due to upside pressure from food and petrol price increases.

Following sharp declines in the volume of imports and exports in 2009, both export and import volumes have recovered. However, the pace of growth in imports has outstripped export volumes, with import volumes almost 4 per cent. above their pre-2009 highs and exports still 13 per cent. below their pre-2009 highs. Export volumes contracted at an annual rate of 6.3 per cent. in the second quarter of 2012 after falling by 1.5 per cent. in the first quarter of 2012. This decline in export volumes has been driven by domestic supply constraints, including electricity rationing in manufacturing and severe disruptions to mining output due to industrial action and wage disputes. This has resulted in the trade balance shifting to a substantial deficit, deteriorating to 1.9 per cent. of GDP in the first half of 2012. The trade balance is expected to further deteriorate as import growth outpaces export growth. In addition, the deficit on the current account of the balance of payments deteriorated to 6.5 per cent. of South Africa's gross domestic product in the second quarter of 2013.

Assuming a return to relatively peaceful industrial relations, domestic conditions are largely supportive of growth. The Republic of South Africa's real GDP accelerated to 3.2 per cent. in the second quarter of 2012 from 2.7 per cent. in the first quarter, driven mainly by the primary sector, which includes agriculture and mining. Real GDP growth is forecast to average 3.0 per cent. in 2013, 3.8 per cent. in 2014 and 4.1 per cent. in 2015. This forecast is supported by resilient household consumption growth, sustained infrastructure investment spending by the Government, the activation of new electricity-generating capacity, relatively low inflation and real interest rates, a gradual recovery in private fixed capital formation and strong regional growth. The Republic of South Africa features a robust regulatory environment, openness to trade, developed capital markets and an attractive position as a gateway to Africa. As an acknowledgement of the economy's size and regional importance, the Republic of South Africa officially became a member of the BRICS countries in 2012, joining Brazil, Russia, India and China in the association of emerging national economies. It is likely that this will lead to closer economic ties between South Africa and other BRICS countries.

Real economic activity in South Africa picked up notably in the second quarter of 2013. Following an annualised growth rate of 0.9 per cent. in the first quarter of 2013, the pace of expansion in real gross domestic product accelerated to 3 per cent. in the second quarter of 2013, primarily driven by the improved performance of the secondary sector. This improved performance may in part be attributable to base effects and, to a lesser extent, to gains in the manufacturing sector. Real output in the primary sector contracted, while growth in the tertiary sector slowed marginally. Despite this firm uptick in economic activity, aggregate real gross domestic product in the second quarter of 2013 was only 2 per cent. higher than in the corresponding period of 2012. A worrying development is the global financial market reaction to increasing signs that the United States central bank may start to slow down the rate of unconventional monetary stimulus. Emerging market countries with large current account deficits, including South Africa, are particular vulnerable in an environment where foreign investors are reassessing their exposure to emerging market assets. The potential currency disruptions pose a downside risk to growth. As a result the Bureau for Economic Research lowered their South African real GDP growth forecast for 2013 to 1.9 per cent. and 2.8 per cent. for 2014.

During the first quarter of 2013 the hesitant global recovery continued at a somewhat firmer pace, as a slackening in the rate of expansion in the developing economies was more than fully countered by improved real growth in advanced economies, particularly in the United States and Japan. Economic activity in the euro area contracted further over the period, with already fragile confidence being undermined towards the end of the quarter by developments in Cyprus. Among the developing countries China experienced lower-than-expected growth in the first quarter, although still expanding at more than twice the pace of overall global output. While the outlook for economic activity in sub-Saharan Africa remained positive, a number of setbacks detracted from the region's growth momentum in the early part of the year.

Global inflation remained relatively well contained in the first four months of 2013, although inflation outcomes in emerging-market and developing countries exceeded those in advanced economies. The lacklustre pace of expansion in global activity and slowdown in China's resource-intensive growth contributed to a moderation of international oil prices and a range of other commodities, particularly from mid-February 2013. Under such circumstances, most countries maintained an expansionary monetary policy stance, particularly advanced economies.

In South Africa, economic activity lost traction in the first quarter of 2013 as real growth decelerated to an annualised rate of 0.9 per cent., which was less than the concurrent pace of population growth. The marked loss of growth momentum was largely due to a contraction in manufacturing output, as steel production was affected by a fire at a large steel mill and petroleum refineries were shut down for maintenance. Simultaneously, agricultural output declined as a dry mid-season spell resulted in a downward revision in crop estimates. The production of electricity also contracted further over the period, reflecting the impact of supply constraints and higher real prices. By contrast, real value added in mining increased as platinum output recovered from the strike-related production stoppages that affected the platinum industry in the second half of 2012, while gold output rose, despite an underground fire at one of the major gold mines. In the construction industry, activity in the residential and non-residential building sectors increased in the first quarter of 2013.

In the services sector, real output continued to expand at a reasonably firm pace, buoyed by activity in the finance, retail trade and communication subsectors. With a deceleration in public sector hiring in the first quarter of 2013, growth in the government's real value contribution to the economy slowed moderately over the period.

Growth in real gross domestic expenditure accelerated in the first quarter of 2013 as real final consumption by government and inventory investment rebounded, having registered declines in the previous quarter. The most significant increases in real inventory holdings in the first quarter were recorded in the manufacturing and mining sectors, replenishing low stock levels carried over from the previous period. Government simultaneously stepped up real spending on non-wage goods and services, alongside a slower pace of increase in real compensation of government employees.

Growth in the real disposable income of households and the pace of increase in real final consumption expenditure by households both moderated somewhat in the first quarter of 2013. The pace of increase in spending on durable goods continued to lose momentum, especially in purchases of new motor vehicles, albeit off a high base. Expenditure on semi-durable goods remained steady, supported by spending on clothing and footwear, whereas the pace of increase in households' purchases of non-durable goods also decelerated significantly over the period. Real spending by households on services registered a moderate increase in the first quarter of 2013 as expenditure on rent, household and medical services increased. Households continued to incur further debt over the period but at a modest pace which was closely aligned with the growth in disposable income, resulting in a broadly sideways movement of the household debt-to-income ratio.

Growth in real gross fixed capital formation slowed further in the first quarter of 2013. Of the main three institutional sectors, only general government registered an acceleration as provincial and central government departments increased their capital spending on housing and construction works. Fixed capital outlays by both private business enterprises and public corporations registered slower growth. The deceleration in investment activity by private business enterprises was widespread and consistent with the generally more subdued economic conditions, with only the agricultural sector, building contractors and business services firms stepping up their expenditure on capital goods. Albeit off a high base, the increase in real capital spending by public corporations slowed considerably in the first quarter, reflecting a weakening of capital investment by the electricity sector as industrial action interrupted progress with the construction of a new power plant. This negative impact was partly offset by firm capital expenditure by public corporations related to the expansion of freight rail, port terminal and road capacity.

The subdued growth trajectory in South Africa was mirrored in lustreless job creation, with total employment rising by only 1.5 per cent. over the year to the first quarter of 2013 and a quarter of the workforce remaining unemployed. Job creation continued to be skewed towards the public sector rather than the private sector. Average wage settlements rose marginally in the first quarter of 2013 compared with 2012, but allowing for productivity improvements, unit labour cost increases remained fairly aligned with the upper limit of the 3 to 6 per cent. inflation target range. Consumer price inflation accelerated during the course of the past year, driven by the prices of petrol, food, transport, education, health services and health insurance, and levelled off just below the upper limit of the target range in the early part of 2013. The depreciation in the exchange value of the Rand over the past year was an important indirect contributor to the inflation process.

In the first quarter of 2013 the deficit on the current-account of the balance of payments narrowed to 5.8 per cent. of gross domestic product. The trade account benefited from an increase in external demand, especially from emerging-market economies, firm international prices for South African export commodities, an improvement in the terms of trade and a more competitive exchange value of the Rand. Although imports also rose significantly as domestic expenditure expanded, this fell short of the increase in export proceeds. Simultaneously the deficit on the services and current transfer account narrowed, reflecting improved travel and dividend receipts from the rest of the world.

The current-account deficit was fully financed by a further sizeable inflow of foreign capital in the first quarter of 2013, registered against the backdrop of nominal interest rate differentials that continued to favour South Africa. A net inflow of direct investment capital was recorded as foreign parent companies extended long-term loans to their domestic subsidiaries. Other investment flows also registered an inflow of capital on a net basis, while portfolio investment (including new issues and redemptions of portfolio investment assets) switched to a net outflow of capital over the period.

The exchange value of the Rand depreciated in the first five months of 2013 driven by apprehension about a range of factors including South Africa's comparatively large current-account deficit, loss of international competitiveness, general electricity-supply constraint concerns, labour unrest, the possibility of weaker global demand for commodities, and concerns about further sovereign debt downgrades. During the course of May, severe industrial action and violent unrest highlighted the risk of further mining-supply disruptions, exacerbating the depreciation of the exchange rate.

Volume and Pricing

The Group's revenue is dependent to a significant extent on pricing and the volume transported on its freight rail network, the throughput at its ports, containers and other terminals and the volume of petroleum transported through its pipelines. Factors that can impact these volume measures include the levels of demand from global and regional trade and the degree of globalisation of world trade, customer-related constraints, competition, including from other regional and global terminal operators (in the case of the Group's container terminal business with respect to transhipment) and the Group's capacity to handle increased volumes.

Transnet calculates a weighted average volume growth and revenue per unit increase (year-on-year actual) for each major commodity line reported within a division, and then weights the growth or increases/decreases per commodity line to its revenue as a percentage of the total commodity revenue in that division. The results represent the weighted average growth in volumes and revenue per unit for a division. A Group weighted volume and revenue per unit increase is also calculated by weighting the divisional weighted averages (as calculated above) against the divisional commodity revenue as a percentage of the cumulative Group commodity revenue. This practice is designed to ensure that volume growth and revenue per commodity unit increases are directly linked and reconcilable with increases per commodity line to its revenue. The calculations to determine volume growth and increases in revenue per unit increases exclude growth in other revenue sources such as storage, marine services, and property rentals.

In the six months ended 30 September 2013, volumes increased by 3.82 per cent. and tariffs increased by 6.26 per cent. as compared to the six months ended 30 September 2012, the net effect of which was an overall revenue increase of 14.26 per cent. as compared to the six months ended 30 September 2012. Except for Transnet Pipelines, all operating divisions experienced volume increases in the six months ended 30 September 2013 compared to the six months ended 30 September 2012. Volume growth resulted from an increase in the Group's general freight as well as the container and automotive sector businesses.

In Financial Year 2013, volumes increased by 1.56 per cent. and tariffs increased by 9.31 per cent., in each case as compared to Financial Year 2012; the net effect of which was an overall revenue increase of 9.36 per cent. as compared to Financial Year 2012. Except for Transnet Pipelines, all operating divisions experienced volume increases in Financial Year 2013 compared to Financial Year 2012. Volume growth resulted from an increase in the general freight, coal and container sectors of the business.

In Financial Year 2012, volumes increased by 7.93 per cent. and tariffs increased by 11.25 per cent., in each case as compared to Financial Year 2011; the net effect of which was an overall revenue increase of 20.94 per cent. as compared to Financial Year 2011. Except for Transnet Pipelines, all operating divisions experienced volume increases in Financial Year 2012 compared to Financial Year 2011. Volume growth resulted from an increase in the general freight, coal, iron ore and container sectors of the business, as well as productivity improvements of 18.0 per cent.

The Group's operating results are significantly impacted by tariff levels. Tariffs with respect to Transnet National Ports Authority and Transnet Pipelines are subject to approval by the regulatory authorities, which may limit the Group's flexibility in pricing and could impact its revenue and operating results. See "*Risk Factors—Risks Related to Transnet's Business—The tariffs Transnet charges are subject to review by regulators who may impose tariffs which are insufficient to meet Transnet's revenue requirements*".

Capital Expenditure Programme and Sustaining Needs

Transnet launched the MDS in Financial Year 2013. The MDS forms the basis of Transnet's Capital Expenditure Programme. Transnet is now in the second year of the MDS and for the period from Financial Year 2014 to 2020 is envisaging a capital expenditure of R307.5 billion. See "*—Liquidity and Capital Resources—Capital Expenditure*" and "*Business—Capital Expenditure Programme*".

Over the next seven financial years including Financial Year 2014, approximately 64.94 per cent. of the R307.5 billion under the Capital Expenditure Programme is expected to be invested in projects relating to Transnet Freight Rail and Transnet Engineering, approximately 30.73 per cent. in Transnet National Ports Authority and Transnet Port Terminals, approximately 3.11 per cent. in Transnet Pipelines and approximately 1.22 per cent. in Specialist Units. Transnet's plan is focused on expanding and creating new capacity ahead of demand by its customers. Transnet expects such expenditures to be made both on sustaining and expanding rail, ports and pipeline assets. The Capital Expenditure Programme is already under way and has resulted in increased spending by Transnet, mainly funded by cash generated from operations with the residual funded by new debt. As a result, finance costs have increased and are expected to increase further with increased spending under the Capital Expenditure Programme, although a significant portion of borrowing costs are expected to be capitalised under IAS 23: *Borrowing Costs*.

Depreciation, derecognition and amortisation decreased marginally during the six months ended 30 September 2012 compared to the six months ended 30 September 2013 and increased significantly year-on-year in Financial Years 2013, 2012 and 2011 as a result of spending in the previous years' capital expenditure programmes. Depreciation, derecognition and amortisation for the six months ended 30 September 2013 and 2012 was R4.8 billion and R4.9 billion, respectively, and in Financial Years 2013, 2012 and 2011 was R9.3 billion, R8.4 billion and R7.2 billion, respectively. Depreciation, derecognition and amortisation is expected to increase further, in line with increased spending as a result of the Capital Expenditure Programme.

Power Shortages and Energy Costs

The Republic of South Africa experienced its most recent electricity crisis from the end of 2007 to early 2008, as state power supplier Eskom's aging power plants were not always able to supply enough power to meet demand. This necessitated rolling blackouts, or load shedding, which affected residents and businesses in major cities. In particular, it affected the ability of the Group's coal mining customers to mine and also affected the Group's electric locomotives and electricity-dependent equipment at port terminals, all of which had an adverse effect on volumes transported by Transnet. Profitability was also adversely impacted as revenues in affected areas declined while fixed costs continued to be incurred even during load shedding. Although the problem has abated in recent years, in part due to decreased demand, there still remains a risk that electricity supply will be insufficient until new generation capacity is installed. Eskom has experienced and is continuing to experience electricity capacity expansion challenges mainly as a result of poor contractor performances and labour unrest. Accordingly, the Group expects the problem may recur and adversely affect revenue and profitability in future periods.

Transnet's energy costs increased by 11.3 per cent. in the six months ended 30 September 2013 compared to the six months ended 30 September 2012, mainly due to a 7.1 per cent. electricity tariff increase as well as fuel price increases in the period ended 30 September 2013. Transnet's energy costs increased by 23.03 per cent. in Financial Year 2013 compared to Financial Year 2012, mainly due to the higher electricity tariffs experienced in Financial Year 2013 as well as fuel price increases. Transnet's energy costs increased by 31.38 per cent. in Financial Year 2012 compared to Financial Year 2011, predominantly due to an increase in the price of diesel fuel used by the Group's locomotives and machinery, as well as an increase in the price of oil and increased electricity tariffs. Transnet cannot predict future oil prices and therefore cannot predict what effect, if any, volatility in such oil prices will have on its business and operations.

Volatility of the Rand

The value of the Rand as measured against the U.S. Dollar has steadily depreciated over recent years and averaged R9.7318, R8.1867, R7.1804, R7.4394 and R8.5013 per U.S. Dollar over the six months ended 30 September 2012 and 2013 and Financial Years 2011, 2012 and 2013 respectively. See also "*Presentation of Financial and Other Information—Exchange Rates*". Decreases in the value of the Rand as measured against other currencies could increase the cost in Rand terms of foreign currency denominated financing and foreign currency denominated operating and capital expenditures. The Group estimates that under the MDS, its non-Rand funding requirements over the next three Financial Years (and especially with respect to the U.S. Dollar, Euro and Yen), commencing with Financial Year 2014, will amount to approximately R15.0 billion. Future exchange rate and financial market volatility may continue to materially impact the Group's results. Although it is Transnet's policy to hedge its foreign currency denominated debt and operating and capital expenditures, currency exchange hedges are not always available on commercially acceptable terms.

Discontinued Operations

No key disposals were made in the six months ended 30 September 2013 or 2012 or in Financial Years 2013, 2012 and 2011. During Financial Year 2012, Luxrail, a division of Transnet Freight Rail, was reclassified to continuing operations, following a decision not to dispose of this business unit.

Seasonality

Prices of commodities and products serviced by the Group may be affected by seasonality and can impact revenue significantly.

Descriptions of Principal Income Statement Items

Descriptions of the principal items in the Group's consolidated income statements are set out below.

Revenue: Revenue consists of amounts earned through the rendering of freight transportation and other services, rental income, finance income from lending activities and through construction contracts and excludes revenues from discontinued operations.

Depreciation, derecognition and amortisation: Depreciation from continuing operations consists of depreciation and derecognition of owned assets at historic cost (which principally relates to rolling stock and containers, port facilities, buildings and structures, machinery, equipment and furniture, and permanent way and works), depreciation on the revalued portion of owned assets (which relates principally to port facilities and pipeline networks) and depreciation on leased assets. Amortisation consists of amortisation with respect to software and licences.

Impairment of assets: Impairment of assets consists principally of impairments with respect to rail segment property, plant and equipment and trade and other receivables.

Dividends received: Dividends received are those received, as the case may be, from associates and investments.

Fair value adjustments: Fair value adjustments consist principally of fair value adjustments of investment property, derivative fair value adjustments, fair value adjustments of treasury bonds, gains or losses on hedging instruments and other fair value adjustments.

Income/(loss) from associates: Income/(loss) from associates reflects income or loss from equity-accounted investments. At 30 September 2013 Transnet had six associates and one joint venture.

Finance costs: Finance costs consist principally of interest costs, discounts on bonds amortised and net foreign exchange translation gains and losses, less borrowing costs capitalised.

Finance income: Finance income consists principally of interest received on short-term investments, loans and receivables.

Taxation: Taxation consists principally of South African normal taxation, capital gains taxation and deferred taxation.

Loss from discontinued operations: This represents the results of the discontinued operations during each Financial Period.

Results of Operations for the six months ended 30 September 2013 and 2012

Summary

The following table sets forth the Group's principal consolidated income statement items for the periods indicated:

	For the six months ended 30 September		
	2013	**2012**	**Variation 2012/13**
	(R millions)	*(R millions)*	*(per cent.)*
Revenue	28,461	24,909	14.3
Net operating expenses excluding depreciation, derecognition and amortisation	(16,426)	(14,818)	10.9
Profit from operations before depreciation, derecognition, amortisation and items listed below	12,035	10,091	19.3
Depreciation, derecognition and amortisation	(4,838)	(4,923)	(1.7)
Profit from operations before the items listed below	7,197	5,168	39.3
Impairment of assets	(196)	(159)	23.3
Post-retirement benefit obligation costs	(220)	(100)	(120.0)
Fair value adjustments	126	113	11.5
Profit before income/(loss) from associates and joint ventures and net finance costs(1)	6,907	5,022	37.5
Income from associates and joint ventures	2	14	(85.7)
Finance costs	(2,875)	(2,672)	7.6
Finance income	127	201	(36.8)
Profit before taxation	4,161	2,565	62.2
Taxation	(1,308)	(899)	45.5
Profit for the period after taxation from continuing operations	2,853	1,666	71.25
Discontinued operations			
Losses from discontinued operations	—	—	—
Profit for the period	2,853	1,666	71.2
Attributable to equity holder	2,853	1,666	71.2

(1) Profit before income from associates and joint ventures and net finance costs is referred to throughout this Base Prospectus as operating profit.

The following table sets out the Group's principal consolidated income statement items as a percentage of revenue for each of the periods indicated:

	For the six months ended 30 September	
	2013	**2012**
	(as percentage of revenue)	
Continuing operations		
Revenue(1)	100.00	100.00
Net operating expenses excluding depreciation, derecognition and amortisation	(57.71)	(59.49)
Profit from operations before depreciation, derecognition, amortisation and items listed below	42.29	40.51
Depreciation, derecognition and amortisation	(17.00)	(19.76)
Profit from operations before the items listed below	25.29	20.75
Impairment of assets	(0.69)	(0.64)
Post-retirement benefit obligation costs	(0.77)	(0.40)
Fair value adjustments	0.44	0.45
Profit before income/(loss) from associates and joint ventures and net finance costs(2)	24.27	20.16
Income from associates and joint ventures	0.01	0.06
Finance costs	(10.10)	(10.73)
Finance income	0.45	0.81
Profit before taxation	14.62	10.30
Taxation	(4.60)	(3.61)
Profit for the period after taxation from continuing operations	10.02	6.69
Discontinued operations		
Losses from discontinued operations	—	—
Profit for the period	10.02	6.69
Attributable to equity holder	10.02	6.69

(1) The per cent. contributions of revenue presented in the above table include only external revenue.

(2) Profit before income from associates and joint ventures and net finance costs is referred to throughout this Base Prospectus as operating profit.

Revenue

Revenue increased by 14.3 per cent. from R24,909 million in the six months ended 30 September 2012 to R28,461 million in the six months ended 30 September 2013. This increase was principally attributable to a 2.4 per cent. increase in total volumes transported by rail as well as container volumes handled by Transnet Port Terminals which increased by 9.42 per cent., whilst petroleum volumes declined mainly as a result of lower economic activity. Transnet Freight Rail made the most significant contribution to the Group's external revenue in the six months ended 30 September 2013 (representing 60.1 per cent.), followed by Transnet National Ports Authority (15.9 per cent.), Transnet Port Terminals (15.4 per cent.), Transnet Pipelines (5.4 per cent.), Transnet Engineering (2.4 per cent.) and the segment covering all other activities (0.8 per cent).

Transnet Freight Rail

Transnet Freight Rail's total segment revenue increased by 9.4 per cent. from R15,770 million in the six months ended 30 September 2012 to R17,253 million in the six months ended 30 September 2013. The increase in revenue was principally attributable to a 2.4 per cent. increase in freight moved by Transnet Freight Rail, at 105.8 mt for the six months ended 30 September 2013 in comparison to 103.3 mt for the six months ended 30 September 2012, despite the continued impact of the economic slowdown.

Iron ore and manganese volumes decreased from 31.7 mt in the six months ended 30 September 2012 to 31.4 mt in the six months ended 30 September 2013. This was mainly due to operational issues at key mines and tippler problems at the ports.

The containers and automotive volumes increased by 26 per cent. from 5.0 mt in the six months ended 30 September 2012 to 6.3 mt in the six months ended 30 September 2013, evidencing a growth in market share arising from increased use of rail, as opposed to roads, for the transportation of freight.

Coal volumes were flat from 41.6 mt in the six months ended 30 September 2012 to 41.9 mt in the six months ended 30 September 2013. Volume growth was negatively impacted by a series of safety incidents and a longer line shut down for maintenance purposes, compared to the prior period. Volumes began improving in the second quarter of the period as a result of improved operational efficiencies.

Mineral mining and chrome volumes increased by 11.0 per cent. from 8.2 mt in the six months ended 30 September 2012 to 9.1 mt in the six months ended 30 September 2013. The growth in volumes is mainly attributable to improved operational efficiencies and is indicative of improved customer relations, which is an indication of the success of the road to rail strategy.

Steel and cement volumes increased by 2.7 per cent. from 11.0 mt in the six months ended 30 September 2012 to 11.3 mt in the six months ended 30 September 2013 mainly due to the higher demand from customers.

Agriculture and bulk volumes were flat at 5.8 mt in the six months ended 30 September 2012 and 5.8 mt in the six months ended 30 September 2013.

Transnet Engineering

Transnet Engineering's total segment revenue decreased by 6.0 per cent. from R6,213 million in the six months ended 30 September 2012 to R5,841 million in the six months ended 30 September 2013. The decrease was due to the migration of the in-service maintenance function from Transnet Engineering to Transnet Freight Rail.

Transnet Engineering's external revenue increased by 19.6 per cent. from R561 million in the six months ended 30 September 2012 to R671 million in the six months ended 30 September 2013, mainly due to the success of Transnet's strategy to diversify external revenue.

Transnet National Ports Authority

Revenue increased by 19.8 per cent. to R5,040 million in the six months ended 30 September 2013 from R4,206 million in the six months ended 30 September 2012. The increase in revenue is mainly attributable to the R1 billion export rebate programme granted in the prior period and the clawback adjustment resulting in an addition to revenue of R96 million in the six months ended 30 September 2013 compared to a reduction of revenue of R328 million in the six months ended 30 September 2012. There was also an increase in rent and leasing income of 16.1 per cent. to R482 million in the six months ended 30 September 2013 from R415 million in the six months ended 30 September 2012.

Net operating expenses increased by 11.9 per cent. to R1.4 billion in the six months ended 30 September 2013 compared to the six months ended 30 September 2012. The cost increase was mainly due to an increase in personnel costs of 8.7 per cent. due to increased headcount, an increase in energy costs of 13.7 per cent. due to the electricity tariff increases and fuel price increases.

Accordingly, Transnet National Port Authority's EBITDA has increased by 23.3 per cent. to R3.6 billion in the six months ended 30 September 2013 from R2.9 billion in the six months ended 30 September 2012.

Transnet Port Terminals

Transnet Port Terminals' total segment revenue increased by 16.7 per cent. from R3,760 million in the six months ended 30 September 2012 to R4,387 million in the six months ended 30 September 2013, due to higher volumes handled across all sectors. Bulk volumes increased by 4.69 per cent. from 42.6 mt in the six months ended 30 September 2012 to 44.6 mt in the six months ended 30 September 2013 while container volumes increased by 9.42 per cent. from 2,174,451 TEUs in the six months ended 30 September 2012 to 2,379,247 TEUs in the six months ended 30 September 2013 as a result of transshipments secured with major customers. Automotive volumes decreased by 3.24 per cent from 334,165 units in the six months ended 30 September 2012 to 323,354 units in the six months ended 30 September 2013.

Transnet Port Terminals' primary measure of container efficiency, average moves per gross crane hour ("**GCH**") shows a mixed set of results compared to that of the same period last year. GCH was negatively impacted by a combination of information technology system issues, poor weather conditions and implementation problems with the new tandem lift cranes at Durban Container Terminal (DCT) Pier 2. Pier 2 delivered a GCH of 24 in the six months ended 30 September 2013 compared to the 29 achieved in the six months ended 30 September 2012. Durban Pier 1 recorded a GCH of 24 in the six months ended 30 September 2013, which is higher than the 23 recorded in the six months ended 30 September 2012. The Ngqura Container Terminal GCH decreased from 30 in the six months ended 30 September 2012 to 26 in the six months ended 30 September 2013 and Cape Town Container Terminal improved its GCH from 30 in the six months ended 30 September 2012 to 33 in the six months ended 30 September 2013. The information technology system has been stable since the beginning of June 2013 and the GCH at Pier 2 is expected to increase as the terminal improves its tandem lift capability. For the six months ended 30 September 2013, Transnet Port Terminals' major customers were Maersk and Mediterranean Shipping Company, which accounted for 13.59 per cent. and 19.10 per cent., respectively, of Transnet Port Terminals' segment total revenue.

Transnet Pipelines

Transnet Pipelines' total segment revenue increased by 16.1 per cent. from R1,327 million in the six months ended 30 September 2012 to R1,541 million in the six months ended 30 September 2013, mainly due to the 8.53 per cent. increase in allowable revenue granted by the National Energy Regulator of South Africa partially offset by a 2.5 per cent. decrease in volumes transported during the period.

Volumes of petroleum products transported decreased by 1.5 per cent. to 8,269 billion litres in the six months ended 30 September 2013. This is as a result of lower market demand that has resulted in lower crude volumes transported for the period.

Other Division

The revenue of the Other Division, which encompasses all of Transnet's remaining assets, increased by 10.0 per cent. from R1,319 million in the six months ended 30 September 2012 to R1,451 million in the six months ended 30 September 2013. The increase was principally attributable to an increase in revenue from Transnet Properties, which is responsible for managing the non-core property portfolio and provides property services for the entire Transnet property portfolio, as well as increased revenue at the Transnet Capital Projects division which is responsible for the oversight and management of most of the Group's large capital expenditure projects.

Net Operating Expenses Excluding Depreciation, Derecognition and Amortisation

The table below sets forth the principal components of the Group's net operating expenses excluding depreciation, derecognition and amortisation for the periods indicated.

	For the six months ended 30 September		
	2013	2012	Variation 2012/13
	(R million)	*(R million)*	*(per cent.)*
Net operating expenses excluding depreciation, derecognition and amortisation			
Personnel costs	(8,854)	(7,863)	12.6
Energy costs	(3,232)	(2,905)	11.3
Operating leases	(961)	(739)	30.0
Material costs	(852)	(1,272)	(33.0)
Managerial and technical consulting fees	(705)	(674)	4.6
Other	(1,822)	(1,365)	33.5
Total	(16,426)	(14,818)	10.9

Net operating expenses excluding depreciation, derecognition and amortisation increased by 10.9 per cent. from R14,818 million in the six months ended 30 September 2012 to R16,426 million in the six months ended 30 September 2013. This increase was principally attributable to increases in personnel costs, energy costs, operating leases, managerial and technical consulting fees, as well as other costs.

Personnel costs increased by 12.6 per cent. from R7,863 million in the six months ended 30 September 2012 to R8,854 million in the six months ended 30 September 2013. This increase was mainly due to an 8.4 per cent. average wage increase for Financial Year 2014, as well as an increase in performance related incentive provisions raised.

Energy costs increased by 11.3 per cent. from R2,905 million in the six months ended 30 September 2012 to R3,232 million in the six months ended 30 September 2013. This increase was principally attributable to a 7.1 per cent. tariff increase in electricity from Eskom as well as fuel price increases.

Expenses related to operating leases increased by 30.0 per cent. from R739 million in the six months ended 30 September 2012 to R961 million in the six months ended 30 September 2013.

Material costs decreased by 33.0 per cent. from R1,272 million in the six months ended 30 September 2012 to R852 million in the six months ended 30 September 2013 mainly due to cost-cutting initiatives implemented during the year.

Managerial and technical consulting fees increased by 4.6 per cent. from R674 million in the six months ended 30 September 2012 to R705 million in the six months ended 30 September 2013. This increase was mainly due to an increase in professional fees relating to the implementation of the MDS.

Other operating expenses increased by 33.5 per cent. from R1,365 million in the six months ended 30 September 2012 to R1,822 million in the six months ended 30 September 2013. This increase was mainly due to increases in rates and taxes as well as health and sanitation costs partially offset by decreases in maintenance costs.

Depreciation, Derecognition and Amortisation

The table below sets forth the principal components of the Group's depreciation, derecognition and amortisation for the periods indicated.

	For the six months ended 30 September		
	2013	2012	Variation 2012/13
	(R million)	*(R million)*	*(per cent.)*
Depreciation, derecognition and amortisation			
Depreciation – Owned assets at historic cost	(4,240)	(4,271)	(0.7)
Depreciation – Owned assets including revalued portion	(451)	(488)	(7.6)
Depreciation – Leased assets	(63)	(48)	31.3
Amortisation of intangible assets (software and licences)	(84)	(116)	(27.6)
Total	(4,838)	(4,923)	(1.7)

Depreciation, derecognition and amortisation decreased by 1.7 per cent. from R4,923 million in the six months ended 30 September 2012 to R4,838 million in the six months ended 30 September 2013. This decrease is as a result of a significant decrease in derecognition costs due to improved fixed asset management during the six months ended 30 September 2013.

Impairment of Assets

Impairment of assets increased by 23.3 per cent. from R159 million in the six months ended 30 September 2012 to R196 million in the six months ended 30 September 2013, as a result of an increase in the impairment of trade and other receivables.

Fair Value Adjustments

Fair value adjustments amounted to a R126 million gain in the six months ended 30 September 2013 and a R113 million gain in the six months ended 30 September 2012. The fair value gain for the six months ended 30 September 2013 is mainly as a result of the investment property fair value gain of R463 million, recognised in terms of IAS 40: Investment Property as well as gains of R58 million in "mark to market" valuations of derivative financial instruments for the six months ended 30 September 2013, specifically foreign exchange hedges that Transnet executed to eliminate foreign currency risk and those hedges which have not been "hedge accounted" in terms of IAS 39: Financial Instruments: Recognition and Measurement. These gains were offset by a fair value loss adjustment of R395 million, recognised in terms of IFRS 13: Fair Value Measurement, due to Transnet including credit risk in the calculation of the fair value of derivative financial assets and liabilities, which it previously had not done.

Finance Costs

Finance costs increased by 7.6 per cent. from R2,672 million in the six months ended 30 September 2012 to R2,875 million in the six months ended 30 September 2013 due to increased borrowings to fund the Capital Expenditure Programme. Capitalised borrowing costs increased by 10.8 per cent. from R490 million in the six months ended 30 September 2012 to R543 million in the six months ended 30 September 2013 mainly due to an increase in capital expenditure.

Finance Income

Finance income decreased by 36.8 per cent. from R201 million in the six months ended 30 September 2012 to R127 million in the six months ended 30 September 2013. This decrease was directly attributable to a decrease in short-term investments held at the beginning of the six months ended 30 September 2013 as compared to the beginning of the six months ended 30 September 2012.

Taxation

The Group's taxation charge increased by 45.5 per cent. from R899 million in the six months ended 30 September 2012 to R1,308 million in the six months ended 30 September 2013. The Group's effective taxation rate decreased to 31.4 per cent. in the six months ended 30 September 2013 compared to 33.2 per cent. in the six months ended 30 September 2012. The effective taxation rate for the Group is higher than the 28.00 per cent. corporate taxation rate as a result of depreciation on assets not qualifying for taxation allowances.

Profit for the Period

The profit of R2,853 million in the six months ended 30 September 2013 represented an increase of 71.2 per cent. when compared to the R1,666 million profit in the six months ended 30 September 2012.

Results of Operations for the years ended 31 March 2013 and 2012

Summary

The following table sets forth the Group's principal consolidated income statement items for the Financial Years indicated:

	For the year ended 31 March		
	2013	2012	Variation 2012/13
	(R millions)	*(R millions)*	*(per cent.)*
Revenue	50,194	45,900	9.36
Net operating expenses excluding depreciation, derecognition and amortisation	(29,143)	(27,018)	7.87
Profit from operations before depreciation, derecognition, amortisation and items listed below	21,051	18,882	11.49
Depreciation, derecognition and amortisation	(9,277)	(8,355)	11.04
Profit from operations before the items listed below	11,774	10,527	11.85
Impairment of assets	(588)	(342)	71.93
Post-retirement benefit obligation income/(costs)	28	31	(9.68)
Fair value adjustments	222	(202)	209.9
Profit before income/(loss) from associates and joint ventures and net finance costs[(1)]	11,436	10,014	14.20
Income/(loss) from associates and joint ventures	24	(6)	500.0
Finance costs	(5,545)	(4,255)	30.32
Finance income	405	488	(17.01)
Profit before taxation	6,320	6,241	1.27
Taxation	(1,980)	(2,122)	(6.69)
Profit for the year after taxation from continuing operations	4,340	4,119	5.37
Discontinued operations			
Losses from discontinued operations	—	—	—
Profit for the year	4,340	4,119	5.37
Attributable to equity holder	4,340	4,119	5.37

(1) Profit before income/(loss) from associates and joint ventures and net finance costs is referred to throughout this Base Prospectus as operating profit.

The following table sets out the Group's principal consolidated income statement items as a percentage of revenue for each of the Financial Years indicated:

	For the year ended 31 March	
	2013	2012
	(as percentage of revenue)	
Continuing operations		
Revenue(1)	100.00	100.00
Net operating expenses excluding depreciation, derecognition and amortisation	(58.06)	(58.86)
Profit from operations before depreciation, derecognition, amortisation and items listed below	41.94	41.14
Depreciation, derecognition and amortisation	(18.48)	(18.20)
Profit from operations before the items listed below	23.46	22.93
Impairment of assets	(1.17)	(0.75)
Post-retirement benefit obligation income/(costs)	0.06	0.07
Fair value adjustments	0.44	(0.44)
Profit before income/(loss) from associates and joint ventures and net finance costs(2)	22.78	21.82
Income/(loss) from associates and joint ventures	0.05	(0.01)
Finance costs	(11.05)	(9.27)
Finance income	0.81	1.06
Profit before taxation	12.59	13.60
Taxation	(3.94)	(4.62)
Profit for the year after taxation from continuing operations	8.65	8.97
Discontinued operations		
Losses from discontinued operations	—	—
Profit for the year	8.65	8.97
Attributable to equity holder	8.65	8.97

(1) The per cent. contributions of revenue presented in the above table include only external revenue.

(2) Profit before income/(loss) from associates and joint ventures and net finance costs is referred to throughout this document as operating profit.

Revenue

Revenue increased by 9.36 per cent. from R45,900 million in Financial Year 2012 to R50,194 million in Financial Year 2013. This increase was principally attributable to a weighted average volume increase of 1.6 per cent., as well as a weighted average tariff increase of 9.24 per cent. Volumes increased as a result of a 3.33 per cent. increase in total volumes carried by rail. The poor economic conditions impacted volumes handled by the Group's ports, with container volumes increasing by a marginal 1.20 per cent., whilst petroleum volumes declined mainly as a result of supply constraint issues at a major refinery. Further, Transnet National Ports Authority's tariffs, determined by the Ports Regulator, were impacted by the R1.0 billion discount programme instituted by Transnet to incentivise exports of container cargo and the automobile sector. Transnet Freight Rail made the most significant contribution to the Group's external revenue in Financial Year 2013 (representing 60.99 per cent.), followed by Transnet Port Terminals (14.78 per cent.), Transnet National Ports Authority (14.76 per cent.), Transnet Pipelines (5.62 per cent.), Transnet Engineering (2.73 per cent.) and the segment covering all other activities (1.12 per cent).

Transnet Freight Rail

Transnet Freight Rail's total segment revenue increased by 14.96 per cent. from R27,658 million in Financial Year 2012 to R31,797 million in Financial Year 2013. The increase in revenue was principally attributable to a 3.33 per cent. increase in freight moved by Transnet Freight Rail, at 207.7 mt for Financial Year 2013 in comparison to 201.0 mt for Financial Year 2012, despite the impact of the economic slowdown and customer related issues, including labour strikes which impacted operations at various mines.

Iron ore and manganese volumes increased by 7.34 per cent. from 59.9 mt in Financial Year 2012 to 64.3 mt in Financial Year 2013. Volume growth is attributable to higher than expected demand for manganese exports as well as improved efficiencies. Locomotive utilisation improved by 12.80 per cent. in Financial Year 2013 compared to Financial Year 2012, marginally offset by lower iron ore export volumes mainly due to depressed commodity prices and customer operational issues experienced during Financial Year 2013, as discussed above.

The containers and automotive volumes increased by 21.59 per cent. from 8.8 mt in Financial Year 2012 to 10.7 mt in Financial Year 2013, evidencing a growth in market share arising from increased use of rail, as opposed to roads, for the transportation of freight.

Coal volumes increased by 1.93 per cent. from 82.7 mt in Financial Year 2012 to 84.3 mt in Financial Year 2013. Volume growth was negatively impacted by the economic slowdown, despite a 22.00 per cent. increase in Eskom's coal volumes and improved operational efficiencies, with locomotive utilisation improving by 4.30 per cent. due to the deployment of new locomotives and improved scheduled infrastructure maintenance.

Mineral mining and chrome volumes increased marginally by 3.18 per cent. from 15.7 mt in Financial Year 2012 to 16.2 mt in Financial Year 2013. The marginal growth in volumes is mainly attributable to the decline in global demand and slowing customer production.

Steel and cement volumes declined by 5.00 per cent. from 22.0 mt in Financial Year 2012 to 20.9 mt in Financial Year 2013 due mainly to the slowdown in economic growth that decreased demand from customers.

Agriculture and bulk volumes decreased by 5.04 per cent. from 11.9 mt in Financial Year 2012 to 11.3 mt in Financial Year 2013 mainly as a result of the migration of some customers in the energy (fuel) sector to Transnet's NMPP, and a slow start to the grain season.

Transnet Engineering

Transnet Engineering's total segment revenue increased by 15.95 per cent. from R11,266 million in Financial Year 2012 to R13,063 million in Financial Year 2013. The increase was primarily due to Transnet Freight Rail's increased demand for maintenance as well as the upgrade of locomotives and wagons in line with the MDS. With the exception of coal line wagons, Transnet Engineering achieved all targets for rolling stock availability and reliability at benchmark levels in support of Transnet Freight Rail's volume ramp-up during the year.

Transnet Engineering's external revenue decreased by 7.18 per cent. from R1,477 million in Financial Year 2012 to R1,371 million in Financial Year 2013, mainly due to a reduction in coach sales to the Passenger Rail Agency of South Africa.

Transnet National Ports Authority

Transnet National Ports Authority's total segment revenue increased by 0.86 per cent. from R8,257 million in Financial Year 2012 to R8,328 million in Financial Year 2013. This is mainly due to the negative impact of the R1.0 billion automotive and container export tariff rebate programme, as well as relatively slow volume growth. Container volumes increased by 1.18 per cent., dry bulk increased by 2.25 per cent. and automotive volumes decreased by 1.11 per cent., offset by the clawback provision of R729 million, compared to a clawback provision of R1,354 million in Financial Year 2012, instituted by the Ports Regulator.

Transnet Port Terminals

Transnet Port Terminals' total segment revenue increased by 5.23 per cent. from R7,055 million in Financial Year 2012 to R7,424 million in Financial Year 2013, due to a marginal increase in automotive volumes from 672,536 units in Financial Year 2012 to 674,231 units in Financial Year 2013 and a 2.90 per cent. increase in break-bulk volumes from 82.9 mt in Financial Year 2012 to 85.3 mt in Financial Year 2013. The increase was slightly offset by a marginal decrease in container volumes from 4,304,900 TEUs in Financial Year 2012 to 4,236,600 TEUs in Financial Year 2013 given the global economic slowdown, which impacted both imports and exports.

Transnet Port Terminals' primary measure of container efficiency, GCH, has improved significantly across most of the terminals since the MDS rollout. Durban Container Terminal ("DCT") Pier 2, the largest of the container terminals, achieved a 21.74 per cent. increase to 28 GCH in Financial Year 2013, whilst Ngqura Container Terminal achieved a 6.00 per cent. increase to 32 GCH and Cape Town Container Terminal achieved a 10.00 per cent. increase to 31 GCH. Pier 1 at the DCT was negatively impacted by unauthorised labour strike-action during Financial Year 2013, resulting in a decrease to 23 GCH for the year. For the year ended 31 March 2013, Transnet Port Terminals' major customers were Maersk and Mediterranean Shipping Company, which accounted for 14.47 per cent. and 17.61 per cent., respectively, of Transnet Port Terminals' segment total revenue.

Transnet Pipelines

Transnet Pipelines' total segment revenue increased by 34.97 per cent. from R2,096 million in Financial Year 2012 to R2,829 million in Financial Year 2013, mainly due to the 31.58 per cent. increase in allowable revenue, including the F-factor, granted by the National Energy Regulator of South Africa in its Financial Year 2013 tariff determination.

Volumes of petroleum products transported decreased by 5.13 per cent. from 16,741 million litres in Financial Year 2012 to 15,882 million litres in Financial Year 2013. This is as a result of the shutdown of the Natref oil refinery and subdued domestic demand for liquid fuel.

Other Division

The revenue of the Other Division, which encompasses all of Transnet's remaining assets, decreased by 22.54 per cent. from R4,108 million in Financial Year 2012 to R3,182 million in Financial Year 2013. The decrease was principally attributable to decreased revenue at the Transnet Capital Projects division which is responsible for the oversight and management of most of the Group's large capital expenditure projects. This decrease was slightly offset by an increase in revenue from Transnet Properties, which is responsible for managing the non-core property portfolio and provides property services for the entire Transnet property portfolio.

Net Operating Expenses Excluding Depreciation, Derecognition and Amortisation

The table below sets forth the principal components of the Group's net operating expenses excluding depreciation, derecognition and amortisation for the Financial Years indicated.

	For the year ended 31 March		
	2013	**2012**	**Variation 2012/13**
	(R million)	*(R million)*	*(per cent.)*
Net operating expenses excluding depreciation, derecognition and amortisation			
Personnel costs	14,507	14,063	3.16
Energy costs	5,470	4,446	23.03
Operating leases	1,479	1,493	(0.94)
Material costs	2,592	2,307	12.35
Managerial and technical consulting fees	1,599	806	98.39
Other	3,496	3,903	(10.43)
	29,143	**27,018**	**7.87**

Net operating expenses excluding depreciation, derecognition and amortisation increased by 7.87 per cent. from R27,018 million in Financial Year 2012 to R29,143 million in Financial Year 2013. This increase was principally attributable to increases in personnel costs, energy costs, material costs as well as managerial and technical consulting fees.

Personnel costs increased by 3.16 per cent. from R14,063 million in Financial Year 2012 to R14,507 million in Financial Year 2013. This increase was mainly due to an 8.4 per cent. average wage increase during the year, as well as an increase in headcount and training costs related to the MDS, partially offset by a decrease in performance related incentive payments.

Energy costs increased by 23.03 per cent. from R4,446 million in Financial Year 2012 to R5,470 million in Financial Year 2013. This increase was principally attributable to higher electricity tariffs from Eskom as well as fuel price increases.

Expenses related to operating leases decreased by 0.94 per cent. from R1,493 million in Financial Year 2012 to R1,479 million in Financial Year 2013.

Material costs increased by 12.35 per cent. from R2,307 million in Financial Year 2012 to R2,592 million in Financial Year 2013 due to higher steel prices and the increased levels of maintenance incurred to support the growth in rail volumes.

Managerial and technical consulting fees increased by 98.39 per cent. from R806 million in Financial Year 2012 to R1,599 million in Financial Year 2013. This increase was mainly due to an increase in professional fees as a result of an increase in consulting services relating to the implementation of the MDS, as well as an increase in internal audit fees.

Other operating expenses decreased by 10.43 per cent. from R3,903 million in Financial Year 2012 to R3,496 million in Financial Year 2013. This decrease was mainly due to a decrease in maintenance costs, insurance costs and other operating expenses as a result of numerous cost-saving initiatives.

Depreciation, Derecognition and Amortisation

The table below sets forth the principal components of the Group's depreciation, derecognition and amortisation for the Financial Years indicated.

	For the year ended 31 March		
	2013	**2012**	**Variation 2012/13**
	(R million)	*(R million)*	*(per cent.)*
Depreciation, derecognition and amortisation			
Depreciation – Owned assets at historic cost	6,528	6,058	7.76
Depreciation – Owned assets including revalued portion	2,352	1,983	18.61
Depreciation – Leased assets	205	114	79.82
Amortisation of intangible assets (software and licences)	192	200	(4)
Total	**9,277**	**8,355**	**11.04**

Depreciation, derecognition and amortisation increased by 11.04 per cent. from R8,355 million in Financial Year 2012 to R9,277 million in Financial Year 2013. This increase is as a result of the significant increase in capital investments over the last seven years, as well as the depreciation of revalued port facilities and pipelines. This trend is expected to continue in line with the execution of the Capital Expenditure Programme.

Impairment of Assets

Impairment of assets increased by 71.93 per cent. from R342 million in Financial Year 2012 to R588 million in Financial Year 2013, as a result of an increase in the impairment of trade and other receivables.

Fair Value Adjustments

Fair value adjustments amounted to a R222 million gain in Financial Year 2013 and a R202 million loss in Financial Year 2012. The fair value gain is mainly the result of investment property fair value gain of R274 million, recognised in terms of IAS 40: *Investment Property*. This gain was slightly offset by losses of R52 million in "mark to market" valuations of derivative financial instruments for the year, specifically foreign exchange hedges that Transnet executed to eliminate foreign currency risk and those hedges which have not been "hedge accounted" in terms of IAS 39: *Financial Instruments: Recognition and Measurement*.

Finance Costs

Finance costs increased by 30.32 per cent. from R4,255 million in Financial Year 2012 to R5,545 million in Financial Year 2013 due to borrowings to fund the Capital Expenditure Programme. Capitalised borrowing costs decreased by 35.99 per cent. from R1,645 million in Financial Year 2012 to R1,053 million in Financial Year 2013 mainly due to the lower costs capitalised to the NMPP assets.

Finance Income

Finance income decreased by 17.01 per cent. from R488 million in Financial Year 2012 to R405 million in Financial Year 2013. This decrease was directly attributable to a decrease in interest rates as well as a decrease in cash and cash equivalents held at the beginning of Financial Year 2013 as compared to Financial Year 2012.

Taxation

The Group's taxation charge decreased by 6.69 per cent. from R2,122 million in Financial Year 2012 to R1,980 million in Financial Year 2013. The Group's effective taxation rate decreased to 31.33 per cent. in

Financial Year 2013 compared to 34.00 per cent. in Financial Year 2012. The effective taxation rate for the Group is higher than the 28.00 per cent. corporate taxation rate as a result of depreciation on assets not qualifying for taxation allowances.

Profit for the Year

The profit of R4,340 million in Financial Year 2013 represented an increase of 5.37 per cent. when compared to the R4,119 million profit in Financial Year 2012.

Results of Operations for the years ended 31 March 2012 and 2011

Summary

The following table sets forth the Group's principal consolidated income statement items for the Financial Years indicated:

	For the year ended 31 March		
	2012	**2011**	**Variation 2011/12**
	(R millions)	*(R millions)*	*(per cent.)*
Revenue	45,900	37,952	20.94
Net operating expenses excluding depreciation, derecognition and amortisation	(27,018)	(22,189)	21.76
Profit from operations before depreciation, derecognition, amortisation and items listed below	18,882	15,763	19.79
Depreciation, derecognition and amortisation	(8,355)	(7,184)	16.30
Profit from operations before the items listed below	10,527	8,579	22.71
Impairment of assets	(342)	(537)	(36.31)
Post-retirement benefit obligation income/(costs)	31	(155)	(120.00)
Fair value adjustments	(202)	625	(132.32)
Profit before (loss)/income from associates and joint ventures and net finance costs(1)	10,014	8,512	17.65
(Loss)/income from associates and joint ventures	(6)	58	(110.34)
Finance costs	(4,255)	(3,439)	23.73
Finance income	488	561	(13.01)
Profit before taxation	6,241	5,692	9.65
Taxation	(2,122)	(1,508)	40.72
Profit for the year after taxation from continuing operations	4,119	4,184	(1.55)
Discontinued operations			
Losses from discontinued operations	—	(71)	100.00
Profit for the year	4,119	4,113	0.15
Attributable to equity holder	4,119	4,113	0.15

(1) Profit before (loss)/income from associates and joint ventures and net finance costs is referred to throughout this Base Prospectus as operating profit.

The following table sets forth the Group's principal consolidated income statement items as a percentage of revenue for the Financial Years indicated:

	For the year ended 31 March	
	2012	**2011**
	(as percentage of revenue)	
Continuing operations		
Revenue[(1)]	100.00	100.00
Net operating expenses excluding depreciation, derecognition and amortisation	(58.86)	(58.47)
Profit from operations before depreciation, derecognition, amortisation and items listed below	41.14	41.53
Depreciation, derecognition and amortisation	(18.20)	(18.93)
Profit from operations before the items listed below	22.93	22.60
Impairment of assets	(0.75)	(1.41)
Post-retirement benefit obligation income/(costs)	0.07	(0.41)
Fair value adjustments	(0.44)	1.65
Profit before (loss)/income from associates and joint ventures and net finance costs[(2)]	21.82	22.43
(Loss)/income from associates and joint ventures	(0.01)	0.15
Finance costs	(9.27)	(9.06)
Finance income	1.06	1.48
Profit before taxation	13.60	15.00
Taxation	(4.62)	(3.97)
Profit for the year after taxation from continuing operations	8.97	11.02
Discontinued operations		
Losses from discontinued operations	—	(0.19)
Profit for the year	8.97	10.84
Attributable to equity holder	8.97	10.84

(1) The per cent. contributions of revenue presented in the above table include only external revenue.

(2) Profit before income/(loss) from associates and joint ventures and net finance costs is referred to throughout this document as operating profit.

Revenue

Revenue increased by 20.94 per cent. from R37,952 million in Financial Year 2011 to R45,900 million in Financial Year 2012. This increase was principally attributable to a weighted average volume increase of 7.93 per cent. across all segments, as well as tariff increases, particularly for coal, iron ore and pipeline customers. Transnet Freight Rail made the most significant contribution to the Group's external revenue in Financial Year 2012 (representing 59.63 per cent. of the total), followed by Transnet National Ports Authority (16.17 per cent.), Transnet Port Terminals (15.37 per cent.), Transnet Pipelines (4.56 per cent.), Transnet Engineering (3.22 per cent.) and the Other Division (1.05 per cent.).

Transnet's ten largest customers in terms of revenue for Financial Year 2012 generated approximately 54 per cent. of its revenue. Transnet's volumes and revenues in its Transnet Freight Rail division were primarily dependent on Transnet's relationships with a core group of customers, most of whom operate in the mining sector. Over the previous three Financial Years, Transnet's customer concentration has remained significant. In Financial Year 2012, Transnet's twelve most significant customers comprised 40 per cent. of Transnet's Financial Year-end trade receivables carrying amount. Arcelor Mittal, BHP Billiton, Assmang, Anglo American and Xstrata generated 9.3 per cent., 6.4 per cent., 6.3 per cent., 6.2 per cent. and 6.0 per cent. respectively, of Transnet's total revenue. Transnet's ten largest general freight customers generated approximately 52 per cent. of the revenue for the general freight business in Financial Year 2012.

Transnet Freight Rail

Transnet Freight Rail's total segment revenue increased by 22.34 per cent. from R22,607 million in Financial Year 2011 to R27,658 million in Financial Year 2012. In Financial Year 2012, its segment external revenues accounted for 58.78 per cent. of the Group's total external revenue. The increase in revenue was principally attributable to an increase in general freight volumes of 9.91 per cent. from 73.7 mt in Financial Year 2011 to 81.0 mt in Financial Year 2012, including an increase in containers on rail of 21.49 per cent. to 762,760 TEUs in Financial Year 2012 in comparison to 627,825 TEUs in Financial Year 2011, reflecting Transnet Freight Rail's increase in market share of containers on rail. Transnet Freight Rail's volumes of general freight, export coal and export iron ore transported increased by a weighted average of 10.09 per cent. from Financial Year 2011 to Financial Year 2012.

Export iron ore volumes increased by 13.20 per cent. from 46.2 mt in Financial Year 2011 to 52.3 mt in Financial Year 2012, mainly due to improved efficiencies, with on-time departures and arrivals improving by 58.39 per cent. and 53.33 per cent. respectively, as well as increased capacity created by the then current capital expenditure programme.

Export coal volumes increased by 8.84 per cent. from 62.2 mt in Financial Year 2011 to 67.7 mt in Financial Year 2012 due to improved operational efficiencies, with on-time departures and arrivals improving by 10.68 per cent. and 19.87 per cent. respectively compared to Financial Year 2011.

Transnet Engineering

Transnet Engineering's total segment revenue increased by 20.80 per cent. from R9,326 million in Financial Year 2011 to R11,266 million in Financial Year 2012. In Financial Year 2012, its segment external revenues accounted for 3.22 per cent. of the Group's total external revenue. The increase was primarily due to Transnet Freight Rail's increased demand for maintenance, as well as the upgrade of locomotives and wagons to support volume growth. With the exception of coal line wagons, Transnet Engineering achieved all targets for rolling stock availability and reliability. Transnet Engineering's external revenue increased by 123.45 per cent. from R661 million in Financial Year 2011 to R1,477 million in Financial Year 2012, mainly due to increased sales of wagons and coaches to the Passenger Rail Agency of South Africa, as well as locomotive and wagon sales into the African market.

Transnet National Ports Authority

Transnet National Ports Authority's total segment revenue increased by 2.43 per cent. from R8,061 million in Financial Year 2011 to R8,257 million in Financial Year 2012. This growth in revenue was mainly attributable to an improvement in container volumes. Container volumes increased by 6.64 per cent., dry bulk increased by 7.77 per cent. and automotive volumes increased by 9.26 per cent. The increase in revenue was partly offset by the clawback provision of R1,354 million in Financial Year 2012, in comparison to R750 million in Financial Year 2011, instituted by the Ports Regulator.

South African ports have experienced compound annual growth in volume of 4.00 per cent. from Financial Year 2005 to Financial Year 2012. Transnet National Ports Authority contributed approximately 16.17 per cent. to the Group's total external revenue in Financial Year 2012, with container, break-bulk, automotive, dry bulk and liquid bulk contributing R4,027 million, R244 million, R559 million, R821 million and R579 million, respectively, of external revenues in Financial Year 2012.

In Financial Year 2012, Transnet National Ports Authority received an average tariff increase of 4.49 per cent. in comparison to Financial Year 2011. Overall cargo volumes increased during Financial Year 2012, despite the impact of the global economic crisis and the impact of macro-economic measures in advanced economies.

Transnet Port Terminals

Transnet Port Terminals' total segment revenue increased by 11.08 per cent. from R6,351 million in Financial Year 2011 to R7,055 million in Financial Year 2012, as a result of higher volumes handled and improved operational efficiencies. Container volumes increased by 7.18 per cent. from 4,016,564 TEUs in Financial Year 2011 to 4,305,066 TEUs in Financial Year 2012. Bulk and break-bulk volumes increased by 6.56 per cent. from 77.8 mt in Financial Year 2011 to 82.9 mt in Financial Year 2012. Automotive volumes increased by 8.90 per cent. from 617,588 units in Financial Year 2011 to 672,536 units in Financial Year 2012. GCH increased by 8.13 per cent. from 24.6 GCH in Financial Year 2011 to 26.6 GCH in Financial Year 2012. In addition, the average tons loaded per hour at the Saldanha iron ore terminal increased by 4.07 per cent. from 6,959 tons per hour in Financial Year 2011 to 7,242 tons per hour in Financial Year 2012, and the Richards Bay dry bulk terminal's loading rate increased 2.73 per cent. from 660 tons per hour in Financial Year 2011 to 678 tons per hour in Financial Year 2012. Transnet Port Terminals contributed 15.37 per cent. to the Group's total external revenue in Financial Year 2012. For the year ended 31 March 2012, Transnet Port Terminals' major customers were Maersk and Mediterranean Shipping Company, which accounted for 14.77 per cent. and 16.22 per cent., respectively, of Transnet Port Terminals' segment total revenue.

Transnet Pipelines

Transnet Pipelines' total segment revenue increased by 85.65 per cent. from R1,129 million in Financial Year 2011 to R2,096 million in Financial Year 2012 mainly due to the 59.00 per cent. increase in allowable revenue including the F-factor granted by NERSA in its Financial Year 2012 tariff determination, partly offset by a 7.12 per cent. decrease in petroleum volume from 18,025 million litres in Financial Year 2011 to 16,741 million litres in Financial Year 2012.

In Financial Year 2012, the pipeline system transported approximately 16.741 billion litres of liquid fuel and 494 million cubic metres of gas, compared to approximately 18.025 billion litres of liquid fuel and 470 million cubic metres of gas in Financial Year 2011. Volume performance in Financial Year 2012 was 7.12 per cent. below Financial Year 2011 due to supply and demand challenges experienced during the year. However, Transnet Pipelines met 98.00 per cent. of all orders placed by clients on the pipeline system for delivery. The gas volume improved by 5.10 per cent. to 494 million cubic metres in Financial Year 2012 from 470 million cubic metres in Financial Year 2011.

Further, the 24 inch and 16 inch sections of the NMPP were operationalised in Financial Year 2012. The aggregate volumes transported in the 16 inch sections amounted to 1.2 billion litres and 348 million litres of diesel were transported in the 24 inch trunkline.

Other Division

Total segment revenue from those divisions covering all activities other than those listed above, which encompasses all of Transnet's remaining assets, increased by 44.60 per cent. from R2,841 million in Financial Year 2011 to R4,108 million in Financial Year 2012. This increase was principally attributable to increased revenue at the Capital Projects and Property divisions.

Net Operating Expenses Excluding Depreciation, Derecognition and Amortisation

The table below sets forth the principal components of the Group's net operating expenses excluding depreciation, derecognition and amortisation for the Financial Years indicated:

	For the year ended 31 March		
	2012	**2011**	**Variation 2011/12**
	(R million)	*(R million)*	*(per cent.)*
Net operating expenses excluding depreciation, derecognition and amortisation			
Personnel costs	14,063	11,840	18.78
Energy costs	4,446	3,384	31.38
Operating leases	1,493	1,482	0.74
Material costs	2,307	1,576	46.38
Managerial and technical consulting fees	806	740	8.92
Other	3,903	3,167	23.24
Total	**27,018**	**22,189**	**21.76**

Net operating expenses excluding depreciation, derecognition and amortisation increased by 21.76 per cent. from R22,189 million in Financial Year 2011 to R27,018 million in Financial Year 2012. This increase was principally attributable to increases in personnel costs, energy costs, as well as material costs and other costs.

Personnel costs increased by 18.78 per cent. from R11,840 million in Financial Year 2011 to R14,063 million in Financial Year 2012. This increase was mainly due to salaries and wages being lower in Financial Year 2011 as a result of a three-week industrial strike, an 8.00 per cent. average wage increase during Financial Year 2012, an increase in headcount to fill critical vacancies and an increase in performance- related bonus payments.

Energy costs increased by 31.38 per cent. from R3,384 million in Financial Year 2011 to R4,446 million in Financial Year 2012. This increase was principally attributable to the higher electricity tariffs as well as fuel price increases. Transnet's expenditure on electricity increased in Financial Year 2012 to 9.08 per cent. of total operating expenditure as compared to 8.50 per cent. in Financial Year 2011. During March 2012, NERSA revised downward the increase in Eskom's power tariff for Financial Year 2013, from the tariff of 25.90 per cent. approved previously in Financial Year 2012 to 16.00 per cent. Transnet's fuel expense represented approximately 7.37 per cent. of its total operating expenditure in Financial Year 2012 and Transnet budgeted for approximately R2.3 billion in fuel expenses for Financial Year 2013, which is equal to 7.25 per cent. of its budgeted total operating expenses.

Expenses related to operating leases increased marginally by 0.74 per cent. from R1,482 million in Financial Year 2011 to R1,493 million in Financial Year 2012. This marginal increase was mainly due to increased charges for operating leases.

Material costs increased by 46.38 per cent. from R1,576 million in Financial Year 2011 to R2,307 million in Financial Year 2012. Material costs increased in response to the higher levels of maintenance incurred to support volume growth and to facilitate further improvements in safety.

Managerial and technical consulting fees increased by 8.92 per cent. from R740 million in Financial Year 2011 to R806 million in Financial Year 2012. This increase was principally attributable to an increase in professional fees.

Other operating expenses increased by 23.24 per cent. from R3,167 million in Financial Year 2011 to R3,903 million in Financial Year 2012. This increase was mainly due to an increase in maintenance costs, electronic data costs, accommodation and refreshments costs, as well as other operating expenses due to increased activity levels and inflation.

Depreciation, Derecognition and Amortisation

The table below sets forth the principal components of the Group's depreciation, derecognition and amortisation for the Financial Years indicated:

	For the year ended 31 March		
	2012	**2011**	**Variation 2011/12**
	(R million)	*(R million)*	*(per cent.)*
Depreciation, derecognition and amortisation			
Depreciation – Owned assets at historic cost	6,058	5,161	17.38
Depreciation – Owned assets including revalued portion	1,983	1,768	12.16
Depreciation – Leased assets	114	95	20.00
Amortisation of intangible assets (software and licences)	200	160	25.00
Total	**8,355**	**7,184**	**16.30**

Depreciation, derecognition and amortisation increased by 16.30 per cent. from R7,184 million in Financial Year 2011 to R8,355 million in Financial Year 2012. The increases are as a result of the roll-out of the then current capital expenditure programme and the depreciation of revalued port facilities and pipelines. This trend is expected to continue in line with the execution of the current Capital Expenditure Programme from Financial Year 2014 through to Financial Year 2020.

Impairment of Assets

Impairment of assets decreased by 36.31 per cent. from R537 million in Financial Year 2011 to R342 million in Financial Year 2012, as a result of a decrease in the impairment of property plant and equipment as well as a decrease in the impairment of trade and other receivables.

Fair Value Adjustments

Fair value adjustments amounted to a R202 million loss in Financial Year 2012 and a R625 million gain in Financial Year 2011. These relate primarily to the capital loss associated with the early redemption and swap of the T018 bonds, the "mark to market" of derivative financial instruments, offset by fair value gains from investment property revaluation adjustments. The redemption and swap of the T018 bonds resulted in a capital loss of R523 million in Financial Year 2012. The "mark to market" of derivative financial instruments resulted in a loss of R32 million in Financial Year 2012 and a loss of R12 million in Financial Year 2011. More specifically, these losses arose from the "mark to market" of foreign exchange hedges that Transnet executed to eliminate foreign currency risk and those hedges which have not been "hedge accounted" in terms of IAS 39: *Financial Instruments: Recognition and Measurement*. The investment property fair value gain of R353 million in Financial Year 2012 and R637 million in Financial Year 2011 were recognised under IAS 40: *Investment Property*.

Finance Costs

Finance costs increased by 23.73 per cent. from R3,439 million in Financial Year 2011 to R4,255 million in Financial Year 2012 due to borrowings that were raised during the last week of Financial Year 2011 amounting to R5.1 billion, as well as additional borrowings raised during Financial Year 2011 to fund the then current capital expenditure programme. Capitalised borrowing costs amounted to R1,645 million in Financial Year 2012 and R1,760 million in Financial Year 2011.

Finance Income

Finance income decreased by 13.01 per cent. from R561 million in Financial Year 2011 to R488 million in Financial Year 2012. This decrease was directly attributable to a decrease in interest rates as well as a decrease in cash and cash equivalents.

Taxation

The Group's taxation charge increased by 40.72 per cent. from R1,508 million in Financial Year 2011 to R2,122 million in Financial Year 2012. The Group's effective taxation rate increased to 34.00 per cent. in Financial Year 2012 compared to 26.83 per cent. in Financial Year 2011. The effective taxation rate for the Group is higher than the 28.00 per cent. corporate taxation rate due to an increase in the capital gains taxation inclusion rate from 50.00 per cent. to 66.6 per cent. and permanent differences.

Losses from Discontinued Operations

Losses from discontinued operations decreased from R71 million in Financial Year 2011 to R nil million in Financial Year 2012. This decrease was principally attributable to the reclassification of Luxrail into continuing operations in Financial Year 2012.

Profit for the year

The profit of R4,119 million in Financial Year 2012 represented an increase of 0.15 per cent. when compared to the R4,113 million profit in Financial Year 2011.

Liquidity and Capital Resources

Liquidity

The Group's principal sources of liquidity over the last four Financial Years have been operating cash flows, borrowings and, to a lesser extent, proceeds from the sale of non-core assets and discontinued operations. Over the next seven Financial Years, the Group anticipates that it will continue to rely on operating cash flows and borrowings for liquidity, with a portion of those borrowings being utilised to support its significant capital expenditure plans under the MDS. Transnet believes that its operating cash flows and borrowing sources will be sufficient to meet its foreseeable liquidity requirements in Financial Year 2014 and beyond.

Indebtedness

The Group's funding base is comprised principally of short and long-term borrowings as well as equity. The Group's outstanding borrowings as at 30 September 2013 were as follows:

Total borrowings by lender	*(R million)*
South African banks	8,131
International banks	9,005
Various holders of Transnet bonds and commercial paper, widely held and traded(1)	59,170
Other	4,425
Total borrowings(2)	**80,731**

(1) Includes bonds held at amortised cost of R58,004 million and commercial paper of R1,090 million.

(2) The Group's aggregate total borrowings as at 30 September 2013 were R80,731 million. The total borrowings excluding hedged foreign exchange risk exposure is R54,483 million (2012: R49,336 million) with all hedged foreign currency denominated loans translated at swap rates applicable when the loans were hedged.

The borrowings listed above include the following bonds in issue as at 30 September 2013:

	Redemption Date	Coupon Rate	Carrying Value	Nominal Value
		(per cent.)	*(R million)*	*(R million)*
Domestic Rand Bonds				
TN17	14 November 2017	9.25	6,788	7,000
TN20	17 September 2020	10.50	7,293	7,000
TN23	6 November 2023	10.80	7,332	7,000
TN25	19 August 2025	9.50	5,131	4,994
TN27	14 November 2027	8.90	6,356	7,000
			32,900	32,994
Eurorand Bonds				
Euro 42(1)	18 April 2028	13.50	1,955	2,000
Euro 42A(1)	30 March 2029	10.00	1,052	1,500
			3,007	3,500
Floating Rate Bonds				
TNF16	10 June 2016	6.233	3,286	3,286
TNF18	26 August 2018	6.433	1,500	1,500
			4,786	4,786
Foreign currency bonds				
TNUS16	10 February 2016	4.5	7,451	7,473
TNUS22	26 July 2022	4	9,860	9,963
			17,311	17,436
Total bonds			58,004	58,716

(1) These bonds are guaranteed by the Government of the Republic of South Africa. The Company pays R1.166 million in guarantee fees every July. The other bonds are not guaranteed. The amounts in the above tables are only in respect of bonds held at amortised cost.

Short-term borrowings

Short-term borrowings decreased by 11.32 per cent. from R6,318 million as at 31 March 2013 to R5,603 million as at 30 September 2013. This decrease was principally attributable to loan repayments made in the six month period ended 30 September 2013, mainly consisting of repayments of loans and commercial paper.

Long-term borrowings

Long-term borrowings increased by 12.52 per cent. from R66,770 million as at 31 March 2013 to R75,128 million as at 30 September 2013. The increase was principally attributable to the issuance of domestic bonds, bank loans, foreign exchange translations, commercial paper and development finance institution loans, the proceeds of which were principally used to fund the Capital Expenditure Programme.

The following table summarises the Group's long-term and short-term borrowings as at the dates indicated:

	As at 30 September 2013	As at 31 March 2013
	(R million)	
Unsecured Rand denominated bonds	40,693	43,477
Other unsecured liabilities	17,596	8,514
Unsecured foreign currency denominated bonds	17,311	16,127
Secured loans and finance leases	3,871	4,239
Total long-term borrowings including current portion	79,471	72,357
Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings	4,343	5,587
Other short-term borrowings	1,260	731
Total short-term borrowings	5,603	6,318

Contractual Obligations and Commercial Commitments

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements for the Group as at 30 September 2013:

	Carrying value 2013	Contractual cash flows 2013	0 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
				(R million)				
Non derivative financial liabilities								
Bonds	(58,004)	(100,638)	(1,422)	(4,688)	(12,161)	(7,487)	(11,150)	(63,730)
Secured bank loans	(3,870)	(5,502)	(469)	(652)	(645)	(637)	(631)	(2,468)
Unsecured bank loans	(17,597)	(21,458)	(3,790)	(2,887)	(2,765)	(2,661)	(2,552)	(6,803)
Commercial paper	(1,090)	(1,090)	(782)	(308)	0	0	0	0
Other short-term borrowings	(170)	(170)	(170)	0	0	0	0	0
Total borrowings Group[(1)]	**(80,731)**	**(128,858)**	**(6,633)**	**(8,535)**	**(15,571)**	**(10,785)**	**(14,333)**	**(73,001)**

(1) These borrowings include interest costs. For debt obligations with variable interest rates, future interest payments have been estimated using the interest rate at 30 September 2013. Certain of these borrowings require the Group to comply with restrictive debt covenants. These covenants include, but are not limited to, negative pledge covenants as well as limitations on the incurrence of future indebtedness. While the Group does not anticipate a violation of these covenants, any violation of such covenants could result in the acceleration of these obligations.

This table does not reflect: (i) outstanding purchase orders for products or services entered into in the normal course of business and (ii) pension obligations, due to the unpredictability of the timing and amount of the relevant payments.

Some of the amounts reflected in this table are denominated in a currency other than South African Rand, whereas this table is reflected in South African Rands translated at the 30 September 2013 exchange rate. As a result, any change in exchange rate between the currency of the underlying contract and the South African Rand will result in a change in the relevant obligations.

The table above does not include additional borrowings and contractual commitments entered into by the Group since 30 September 2013.

It is anticipated that these contractual commitments will be financed by net cash flows from operations, together with domestic and international issues of commercial paper, bonds and bank loans, export credit-agency backed finance, development finance institution finance, leasing and project financing.

Future Funding

The Group has planned capital expenditure of R307.5 billion (excluding capitalised borrowing costs of R10.5 billion) over the next seven Financial Years beginning in Financial Year 2014 that will require the raising of substantial amounts of additional borrowings. Management expects capital commitments to be financed by cash from operations, together with domestic and international issues of commercial paper, bonds and bank loans, export credit agency-backed finance, development finance loans, leasing and project financing. See "*—Capital Expenditure Programme*" and "*Business—Capital Expenditure Programme*". Currently, Transnet plans to fund a portion of this capital expenditure through indebtedness, a large part of which is planned to be borrowed in the domestic market under its R55 billion Domestic Medium Term Note ("**DMTN**") and Commercial Paper Programme. See "*Description of Certain Indebtedness—Domestic Medium-Term Note and Commercial Paper Programme*". Transnet also plans to fund a portion of this capital expenditure through issuances under the GMTN Programme established by this Base Prospectus. See "*—Use of Proceeds*".

The total short-term borrowing facilities available to the Group as at 30 September 2013 amount to R37.1 billion, of which R8.4 billion was committed and available within 24 hours and the balance was uncommitted. Transnet has recently increased its committed facilities by R2.7 billion. Approximately R300 million under Transnet's commercial paper programme is available subject to issuance participation, when required. Furthermore, Transnet has approximately R17.6 billion in the form of bonds available from the DMTN programme, and R42.5 billion available from the GMTN Programme.

Cash Flows

The following table sets forth the Group's cash flow activity for the six months ended 30 September 2013 and 2012 and for Financial Years 2013, 2012 and 2011.

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012	2013	2012	2011
			(R million)		
Cash flows from operating activities	7,769	7,117	16,776	17,910	13,159
Cash flows utilised in investing activities	(10,778)	(12,280)	(27,241)	(24,661)	(23,018)
Cash flows from/(utilised in) financing activities	6,029	12,140	11,874	(2,936)	12,791
Net increase/(decrease) in cash and cash equivalents	3,020	6,977	1,409	(9,687)	2,932
Cash and cash equivalents at the beginning of the period	2,598	1,189	1,189	10,876	7,944
Total cash and cash equivalents at the end of the period	**5,618**	**8,166**	**2,598**	**1,189**	**10,876**

Cash flows from operating activities

Net cash flows from operating activities for the six months ended 30 September 2013 amounted to R7,769 million, an increase of 9.2 per cent. from R7,117 million for the six months ended 30 September 2012. Working capital was negatively impacted by slower collections relating to the Passenger Rail Agency of South Africa, as well as an increase in inventory at Transnet Engineering following lower than anticipated locomotive, coach and wagon sales.

Net cash flows from operating activities for Financial Year 2013 amounted to R16,776 million, a decrease of 6.33 per cent. from R17,910 million for Financial Year 2012. Working capital was negatively impacted by slower collections relating to the Passenger Rail Agency of South Africa, as well as an increase in inventory at Transnet Engineering following lower than anticipated locomotives, coach and wagon external sales.

Net cash flows from operating activities for Financial Year 2012 amounted to R17,910 million, an increase of 36.10 per cent. from R13,159 million for Financial Year 2011, in line with the increase in adjusted EBITDA. Improved working capital management, as well as improved collections relating to the Passenger Rail Agency of South Africa, resulted in a working capital inflow of R781 million.

The Government-approved levy for the NMPP of 7.5 cents per litre also contributed to the improvement in cash generated from operations by R1.3 billion in both Financial Years 2013 and 2012. This levy has ceased as of 31 March 2013. See "*Business—Operations—Transnet Pipelines—Corporatisation*".

Cash flows utilised in investing activities

Cash utilised in investing activities for the six months ended 30 September 2013 amounted to R10,778 million, a decrease of 12.2 per cent. from R12,280 million for the six months ended 30 September 2012. The decrease was mainly due to capital optimisation and lower investing activity due to uncertain economic conditions. In the six months ended 30 September 2013, R6.2 billion was spent to maintain infrastructure and equipment and R5 billion was spent to expand capacity (excluding capitalised borrowing costs, but including capitalised finance leases and capitalised decommissioning liabilities). See "*—Capital Expenditure Programme*". The Group has achieved 87.0 per cent. of its capital expenditure budget for the period.

Cash utilised in investing activities for Financial Year 2013 amounted to R27,241 million, an increase of 10.46 per cent. from R24,661 million for Financial Year 2012. The increase was mainly due to an increase in capital expenditure made pursuant to projects included in the Capital Expenditure Programme. In Financial Year 2013, R16.2 billion was spent to maintain infrastructure and equipment and R11.3 billion was spent to expand capacity (excluding capitalised borrowing costs, but including capitalised finance leases and capitalised decommissioning liabilities). See "*—Capital Expenditure Programme*". The Group has achieved 88.10 per cent. of the R31.2 billion capital expenditure budget for the year.

Cash utilised in investing activities for Financial Year 2012 amounted to R24,661 million, an increase of 7.14 per cent. from R23,018 million for Financial Year 2011. The increase was mainly due to an increase in capital expenditure made pursuant to projects included in the then current capital expenditure programme. This increase was partially off-set by an outflow in short term investments due to the payment of R1,200 million relating to the acquisition of the former Durban International Airport site, currently referred to as the Durban Dig-Out Port (the "**DDOP**") site.

Cash flows from/(utilised in) financing activities

Cash from financing activities for the six months ended 30 September 2013 was R6,029 million, and the cash flows utilised in financing activities for the six months ended 30 September 2012 was R12,140 million. This change was principally attributable to a substantial increase in borrowings raised as well as a decrease in borrowings repaid.

Cash from financing activities for Financial Year 2013 was R11,874 million, and the cash flows utilised in financing activities for Financial Year 2012 was R2,936 million. This change was principally attributable to a substantial increase in borrowings raised as well as a decrease in borrowings repaid.

Cash utilised in financing activities for Financial Year 2012 was R2,936 million, and the cash from financing activities for Financial Year 2011 was R12,791 million. The excess cash on hand from Financial Year 2011, as a result of the pre-funding strategy adopted, drove the financing activities for Financial Year 2012.

Capital Expenditure Programme

Transnet's spending under the Capital Expenditure Programme amounted to R11.2 billion (excluding capitalised borrowing costs, but including capitalised finance leases and capitalised decommissioning liabilities) in the six months ended 30 September 2013 as compared with R12.8 billion for the six months ended 30 September 2012. Of the R11.2 billion spent in the six months ended 30 September 2013, R6.2 billion was spent to maintain infrastructure and equipment and R5 billion was spent to expand capacity. Transnet's spending under the Capital Expenditure Programme (excluding capitalised borrowing costs) amounted to R21.5 billion in Financial Year 2011 and R22.3 billion in Financial Year 2012. A further R27.5 billion (excluding capitalised borrowing costs, but including capitalised finance leases and capitalised decommissioning liabilities) was spent in Financial Year 2013. Of the R27.5 billion in Financial Year 2013, R16.2 billion was spent to maintain infrastructure and equipment and R11.3 billion was spent to expand capacity.

The Capital Expenditure Programme provides for Transnet's continuing operations to invest R307.5 billion over the next Seven Financial years commencing with Financial Year 2014 (excluding capitalised borrowing costs of R10.5 billion) on key corridors and sectors. Transnet currently estimates that of the R307.5 billion, R121.5 billion will be invested in the three Financial Years beginning in Financial Year 2014 (excluding capitalised borrowing costs). Approximately 64.93 per cent. of the R307.5 billion under the current Capital Expenditure Programme is expected to be invested in projects relating to Transnet Freight Rail and Transnet Engineering, approximately 30.73 per cent. in Transnet National Ports Authority and Transnet Port Terminals, approximately 3.11 per cent. in Transnet Pipelines and approximately 1.20 per cent. in Specialist Units, over the next seven Financial Years commencing with Financial Year 2014. Transnet's plan is focused on expanding and creating new capacity ahead of demand by its customers. Transnet expects such expenditures to be made both on sustaining and expanding ports, pipeline and rail freight assets.

Under the MDS, Transnet plans to acquire 1,340 additional locomotives and 21,255 additional wagons over the next seven Financial Years commencing with Financial Year 2014, with the aim of increasing capacity for (i) export iron-ore from 60 mt to 82.5 mt at an estimated total cost of R19.3 billion, (ii) coal export from 71 mt to 97.5 mt at an estimated total cost of R32.4 billion and (iii) general freight from 85.2 mt to 180.3 mt at an estimated total cost of R142.7 billion. Over the next seven Financial Years Transnet also intends to increase (i) maritime container capacity from 5.4 million TEUs to 8.1 million TEUs in terminals and from 7.4 million TEUs to 8.4 million TEUs in ports at an estimated total cost of R30.2 billion, (ii) bulk capacity from 90.1 mt to 127 mt in terminals and from 196 mt to 232 mt in ports at an estimated total cost of R37.6 billion and (iii) break-bulk capacity from 28 mt to 31 mt in ports (while sustaining capacity in terminals at 15 mt) at an estimated total cost of R9.2 billion. The completion of the NMPP by September 2014 is planned to increase the pipeline capacity from 4.4 billion litres to 8.7 billion litres at a total cost of R6.9 billion.

See "*Business—Capital Expenditure Programme*" for a more detailed discussion of the Capital Expenditure Programme.

Contingent Liabilities and Assets

Judicial Proceedings

While no assurance can be given, Transnet does not expect to incur material losses in connection with existing legal proceedings to which Transnet is a party. As at 30 September 2013, management estimated that contingent liabilities and contingent assets related to judicial proceedings involving Transnet as either defendant or plaintiff could amount to approximately R621.9 million and R11.0 million, respectively. See also "*Business—Litigation and Other Proceedings*."

Provisions

Short-term and long-term provisions include provisions for third-party claims, customer claims, decommissioning and other environmental liabilities, restructuring and other matters.

Long-term provisions increased marginally by 0.89 per cent. to at R1,919 million as at 30 September 2013 compared to R1,902 million as at 31 March 2013.

Short-term provisions increased by 15.44 per cent. from R991 million as at 31 March 2013 to R1,144 million as at 30 September 2013. This increase was mainly attributable to third party claims premium increases.

Guarantees

Transnet had provided guarantees of third-party liabilities in the amount of R114 million and R223 million as of 31 March 2013 and 30 September 2013, respectively. The reason for the significant decrease in the guarantee balance as of 31 March 2013 compared to the balance of R1,939 million as of 31 March 2012 was due to the R1,833 million guarantee pertaining to a sale and leaseback with respect to Transnet Freight Rail locomotives used in the Republic of South Africa being closed out.

As at 30 September 2013, the Shareholder has guaranteed certain borrowings of the Group amounting to R3.5 billion representing 4.3 per cent. of total borrowings of R80.7 billion.

Off-Statement of Financial Position Arrangements

Other than the contingent liabilities and guarantees discussed above, the Group does not have any off-statement of financial position arrangements.

Qualitative and Quantitative Disclosure About Market Risk

The overall risk management philosophy of Transnet, is to the extent possible, to avoid undue risks and manage business risks. However, given the nature of Transnet's business and the MDS, it is not always possible to avoid risks all together. In pursuit of its business, the Group is exposed to a myriad of risks including but not limited to market, credit, liquidity and operational risks. The long-term viability, continued success and reputation of Transnet are critically dependent on the credibility of risk management and commitment to applying leading practice in risk management.

The Group has a centralised treasury function which performs a supporting role to the operating divisions and is tasked with the following three main objectives:

- to ensure the Group is cost-effectively and timeously funded in support of the Group's Capital Expenditure Programme which is mainly executed by the operating divisions;
- to manage both financial and operational risks; and
- to lower the overall cost of doing business and add value to the overall business of Transnet.

All of these objectives should be performed in a professional and ethical manner in line with the Group's governance framework.

The financial risk management policies are contained in a Board approved Financial Risk Management Framework, the objective of which is to provide clear guidelines to ensure effective risk management by ensuring that:

- risks are independently assessed and controlled regularly;
- risk exposures are formally reported; and
- there are clear responsibilities allocated to the relevant persons and accountability is defined.

This framework is approved by the Board of Directors and is aligned with the Group ERM Framework and applicable best practice, legislation and regulations.

Apart from the requirements of the Financial Risk Management Framework, the treasury function must operate within the limits as contained in the Transnet Group Delegation of Authority Framework as approved by the Board.

Financial risk assessment and analysis are disclosed on a monthly basis to the Group Treasurer, the Chief Financial Officer, the Group Finance Committee and the Group Executive Committee. The Group Executive Committee is responsible for reporting financial risk exposures to the Board at scheduled Board meetings.

Transnet's business operations expose it to liquidity, credit, and market risk (comprising foreign currency, commodity, interest rate and other price risk), which are discussed under the headings below. Given the level of volatility in the markets, the Treasury will continuously manage all risks very closely so as to implement risk mitigating initiatives timeously, when required.

Foreign Currency Risk

Foreign currency risk arises mainly as a result of the Group's MDS and operational expenditure programmes, where goods are imported from foreign countries and are exposed to currency fluctuations as well as the raising of funding in a foreign currency. Transnet's main objectives regarding its foreign currency risk policies are:

- to mitigate foreign currency risk exposures;
- to bring certainty about future Rand cash flows where foreign exchange is involved; and
- to insulate the Group's statement of comprehensive income against exchange rate fluctuations.

Transnet's policy only allows unhedged foreign currency risk exposure limited to 0.5 per cent. of annual budgeted operational expenses and one per cent. of the annual budgeted capital expenditure. All foreign currency risk exposures are hedged within Board-approved guidelines as soon as the supplier and funding agreements are signed. It is the Group's preference to enter into Rand-based supplier and funding agreements, if this can be achieved at an acceptable cost, with no foreign currency risk recourse to Transnet. If this approach is not cost-effective, Transnet will then hedge on its own financial position. No pooling of hedging across different exposure types is allowed and hedging is done per project exposure. The foreign currency position is monitored on a monthly basis, by obtaining the net foreign currency position in all the major currencies, including U.S. Dollar, Euro, Pounds Sterling, Japanese Yen and certain other foreign currencies. Foreign currency risk exposures are fully hedged until maturity with vanilla hedging instruments after careful consideration and analysis of the taxation, financial risk, accounting, operational and system implications. Hedge accounting is applied to all major contracts to minimise income statement volatility and the performance is monitored monthly by a sub-committee of the Group Finance Committee to ensure proper implementation and adherence to guidelines.

The Group's net long/(short) foreign currency risk exposures as at 31 March 2013 and 31 March 2012 are as follows (expressed in notional amounts):

	31 March 2013					**31 March 2012**				
	USD[(1)]	**JPY[(2)]**	**EUR[(3)]**	**AUD[(4)]**	**Other currencies expressed in USD**	**USD[(1)]**	**JPY[(2)]**	**EUR[(3)]**	**AUD[(4)]**	**Other currencies expressed in USD**
	(in millions of currency)					*(in millions of currency)*				
Foreign currency bonds	(1,750)	—	—	—	—	(750)	—	—	—	—
Secured bank loans	—	—	—	—	—	—	—	—	—	—
Unsecured bank loans	(510)	(38,408)	—	—	—	—	(41,334)	—	—	—
Brazil equity investment	12	—	—	—	—	13	—	—	—	—
Gross statement of financial position exposure	(2,248)	(38,408)	—	—	—	(737)	(41,334)	—	—	—
Exposures for future expenditure	(47)	(3,501)	(6)	(9)	(1)	(128)	(8,494)	(47)	(3)	(11)
Gross foreign currency exposure	(2,295)	(41,909)	(6)	(9)	(1)	(865)	(49,828)	(47)	(3)	(11)
Forward exchange contracts and currency options	45	3,501	6	9	1	110	8,494	30	—	11
Cross currency swaps	2,260	38,408	—	—	—	750	41,334	—	—	
Net uncovered exposure	10	—	—	—	—	(5)	—	(17)	(3)	—

(1) The mid rates of exchange of the U.S. Dollar against the Rand used for conversion purposes were 9.8696 at 31 March 2013 and 8.1393 at 31 March 2012.

(2) The mid rates of exchange of the Japanese Yen against the Rand used for conversion purposes were 9.8631 at 31 March 2013 and 9.7711 at 31 March 2012.
(3) The mid rates of exchange of the Euro against the Rand used for conversion purposes were 12.8450 at 31 March 2013 and 10.3347 at 31 March 2012.

The table below shows the impact on profit and loss of a stronger and weaker Rand for the Group as a result of fair value movements of cross currency interest rate swaps and forward exchange contracts as at 31 March 2013 and 31 March 2012:

	31 March 2013				31 March 2012			
Currency	**Currency exposure**	**Fair value**	**Impact of Rand strengthening**	**Impact of Rand weakening**	**Currency exposure**	**Fair value**	**Impact of Rand strengthening**	**Impact of Rand Weakening**
	(in millions of currency)	*(R million)*	*(R million)*	*(R million)*	*(in millions of currency)*	*(R million)*	*(R million)*	*(R millions)*
AUD	—	—	—	—	—	—	—	—
EUR	(30)	(27)	(25)	25	(33)	2	(23)	23
JPY	—	—	—	—	(90)	0.3	(1)	1
USD	1	0.3	2	(2)	(3)	2	(7)	7
Total		**(26.7)**	**(23)**	**23**		**4.3**	**(31)**	**31**

Hedge accounting is applied to 98.00 per cent. of currency hedges where structures are designated either as fair value hedges or cash flow hedges. The sensitivity analysis above includes the impact of fair value movements on derivatives that are part of effective hedge accounting, hence the analysis is on a net balance, after the offsetting effect of the hedged item and hedging instruments. The sensitivity analysis was calculated using a 95.00 per cent. confidence interval over a 90-day horizon, and assumes all other variables remain unchanged. Basis swap adjustments have been added to the curves when doing the sensitivities to ensure that a more accurate market value is reflected that also takes market liquidity into account.

Value-At-Risk

The value at risk ("**VaR**") for direct committed capital and operational exposures and the Group's Brazilian equity investment was R12 million as at 31 March 2013 and R23 million as at 31 March 2012. VaR calculates the maximum pre-taxation loss expected (or worst case scenario) on a position held, over a 90-day horizon given a 95.00 per cent. confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account, inter alia, market volatilities relative to a position held. The Group uses historical simulation and the model assumes that historical patterns will repeat into the future and does not take extreme market conditions into account.

Commodity Price Risk

Commodity price risk refers to the potential variability in Transnet's financial condition owing to the changes in commodity prices such as Brent crude oil, steel, iron ore and others. Only fuel risk exposures are actively monitored on a regular basis and are hedged in accordance with Board-approved guidelines. As at 30 September 2013, approximately 30 per cent. of the budgeted fuel expense was hedged against fuel risk exposure. Major customer agreements in respect of the general freight business of the Group are structured in such a way that tariffs can be adjusted to compensate for changes in fuel prices (Brent and exchange rates), steel prices and electricity and do provide a good natural risk offset. Only the unhedged portion on fuel will be considered for hedging purposes in terms of approved policies. The Board-approved Financial Risk Management Framework requires the utilisation of vanilla type hedging instruments that are highly liquid with a maximum tenure of 12 months and the underlying asset used in a hedging strategy must have a very high correlation with the actual product consumed. The purpose of fuel hedging is to immunise the Group's annual approved fuel budget.

The table below details the cash flow at risk scenarios against the approved budget for Financial Year 2014 at various levels of Brent Crude and USD/ZAR exchange rates as at 30 September 2013. It includes the effect of fuel levies charged to rail customers as well as option premiums paid and projected option payoff profiles.

	Cash flow at risk (negative: excess against budget)				
Fuel price in dollars per barrel	**$/R8.63**	**$/R9.50**	**$/R9.96**	**$/R10.30**	**$/R11.30**
			(R million)		
Brent @ $89.00	(62)	(113)	(137)	(153)	(183)
Brent @ $95.00	(100)	(155)	(179)	(189)	(198)
Brent @ $108.00	(182)	(223)	(222)	(221)	(218)
Brent @ $115.00	(217)	(232)	(231)	(230)	(228)
Brent @ $127.00	(241)	(248)	(247)	(247)	(247)

Interest Rate Risk

This refers to the potential risk to Transnet's results and financial condition owing to changes in interest rate levels. The Group's borrowings, investments in interest-bearing instruments and derivative financial instruments create exposure to this risk. The Group's main objectives in managing interest rate risk are as follows:

- to manage the ratio of floating rate exposures versus fixed rate exposures;
- to reduce the weighted average cost of debt to ensure the gap to prevailing market rates is reduced;
- to take advantage of interest rate cycles;
- to support the business strategy in so far as interest rates are concerned;
- to minimise the negative impact of adverse interest rate movements on the Group's net income, cash flows and external finance cost budget within an acceptable risk profile;
- to minimise the market-making cost of the Group's repo bond portfolio;
- to manage the basis risk exposure where interest rate risk is netted between investments and borrowings; and
- to manage the duration of the debt portfolio (including derivatives) to try and achieve alignment with the duration of the average payback periods of assets.

The Group measures interest rate risk by calculating the impact of fair value movements on derivatives and floating rate loans and running cash flow at risk scenarios and extreme sensitivities to determine the impact against the annually approved external finance cost budget in respect of current liabilities and new funding requirements per Financial Year. All foreign currency interest rate risk exposures are hedged to Rand as soon as agreements are concluded. The Treasury is allowed to manage the fixed/floating interest rate risk exposure within Board approved ranges.

The Group's exposures to fixed and floating interest rates on its domestic financial liabilities as at 30 September 2013 and 30 September 2012 were as follows:

	As at 30 September	
	2013	**2012**
	(R million)	
Fixed rate liabilities	64,597	59,716
Floating rate liabilities	16,058	11,375
Total	**80,655**(1)	**71,091**(1)

(1) These values exclude repurchase liabilities of R76 million as at 30 September 2013 (2012: R103 million), which have a maturity term of one week.

The exposure to floating interest rates on foreign financial liabilities before swaps is R7,298 million as at 30 September 2013 and R5,966 million as at 30 September 2012 for the Group, but the full foreign currency loan portfolio has been swapped to a fixed Rand interest rate risk exposure by means of cross-currency interest rate swaps and is included above under fixed rate liabilities. The Board approved a targeted range of fixed interest rates that may be managed to enable management to utilise interest rate yields.

The sensitivity analysis below has been determined based on the exposure to floating interest rates for both derivatives and non-derivative financial instruments as at the statement of financial position dates indicated. The analysis illustrates the possible impact on finance cost and profit and (loss) in the Financial Year commencing immediately after the statement of financial position dates as a result of changes in domestic interest rates. Similar shifts are used internally when reporting interest rate risk to key management personnel and represents management's assessment of a reasonably possible change in interest rates. The sensitivity analysis below reflects the interest rate impact on the finance cost budget for Financial Year 2014 in respect of existing liabilities and new funding requirements:

	As at 30 September 2013					As at 30 September 2012				
Financial instrument	**Market value shift at 100 bp increase**	**Market value shift at 200 bp decrease**	**Market value shift at 250 bp increase**	**Market value shift at 500 bp decrease**	**Market value shift at 500 bp increase**	**Market value shift at 100 bp increase**	**Market value shift at 200 bp decrease**	**Market value shift at 250 bp increase**	**Market value shift at 500 bp decrease**	**Market value shift at 500 bp increase**
	(R millions)									
Finance cost impact (increase)	148	430	7	712	(228)	695	866	609	1,038	466

The sensitivity analysis was performed by doing parallel shifts of the swap curve (plus/minus 100, 200, 250 and 500 basis points). The sensitivity ranges utilised are based on historical trends. The above table assumes no change in other variables.

Other Price Risk

The Group is exposed to equity price risk on the Brazilian stock exchange. At 31 March 2013, the quoted value of the Group's equity investment in Spoornet do Brazil Limited was R114 million compared to R99 million as at 31 March 2012. Management believes that the foreign exchange exposures on this investment are significantly greater than that of equity price risk and as such the sensitivity for this investment has been included in the foreign currency risk net position and VaR calculations.

Critical Accounting Policies

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of equity, assets and liabilities, revenue and expenses.

The estimates and underlying assumptions are based on historical experience, independent experts' advice and inputs and various other factors that are considered to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of IFRS that have a significant effect on the financial statements are discussed below:

Revaluation of Property, Plant and Equipment

Port operating assets (Transnet Port Terminals), pipeline networks (Transnet Pipelines) and port infrastructure assets (Transnet National Ports Authority) are carried at re-valued amounts. Formal revaluations are performed every three years by independent experts for these asset classes.

Appropriate indices, as determined by independent experts, are applied in the intervening periods to ensure that the assets are carried at fair value at the reporting date. Judgement is applied in the selection of such indices.

Fair value is derived by applying internationally acceptable and appropriately benchmarked valuation techniques, such as depreciated optimised replacement cost or modern equivalent asset valuation methods, which are dependent on the asset class being revalued.

The useful life of each asset group has been determined by independent experts based on the build quality, maintenance history, operational regime and international benchmarks relative to the assets.

During the current year, an index valuation was applied to pipeline networks and a full valuation was applied to the port infrastructure assets and port operating assets.

IAS 36: *Impairment of Assets* requires that the carrying amount of assets should not exceed the amount recoverable from the future use or disposal of those assets. Consequently all asset classes that are subject to revaluation were tested against a discounted cash flow model to ensure that their carrying amounts were recoverable.

After extensive consultation with subject matter experts, both internal and external, various assumptions were made in order to derive the fair value of future cash flows. The more critical assumptions made were:

- future cash flows were based on the five-year approved budgets and operational plans;
- the rate used to discount cash flows for the purposes of determining value in use was the individual operating division's post-taxation weighted average cost of capital. This ensures that the appropriate risk profile of the business was incorporated into the asset valuation. The rates used for this ranged between 11.74 per cent. and 12.36 per cent.;
- identification of projects (present and future) that were expected to sustain capital expenditure; and
- a terminal growth rate that was based on the theoretical capacity of the underlying assets.

Impairment—Cash-Generating Units

IAS 36: *Impairment of Assets* requires an entity to assess at each reporting date whether or not there is an indication that an asset may be impaired. If there are any such indicators, the entity shall estimate the recoverable amount of the asset.

The Group conducted an assessment of potential indicators of impairment for all its operating divisions (as single cash generating units). In addition to the indicators of impairment provided in IAS 36: *Impairment of Assets*, the Group assessed additional issues and factors that could result in the impairment of assets for the six months ended 30 September 2013. The additional issues and factors considered include:

- the economic environment and review of the key commodity markets;
- overall growth and the Quantum Leap Strategy;
- analysis of key volumes and revenue forecasts;
- the capital investment plan for 2012; and
- key financial indicators including profitability, gearing and return on assets.

The Group concluded that no indicators of impairment existed for the Group or its operating divisions (as single cash-generating units) for the six months ended 30 September 2013.

Residual Values and Useful Lives

Residual values are reviewed at the end of each Financial Year.

The following factors are considered when assessing an asset's residual value:

- expected future market conditions;
- projected disposal values;
- expected physical condition of the asset at the end of its useful life; and
- the residual values currently being realised on disposal of similar assets.

Useful lives of all property, plant and equipment and intangible assets with a finite useful life are also reviewed annually. The following factors are considered when assessing an asset's useful life:

- current maintenance programmes;

- expected usage of the asset;
- expected physical wear and tear of the asset; and
- technical obsolescence.

Investment Properties

Under IAS 40: *Investment Property*, judgement is required in determining whether a property qualifies as investment property. The primary judgement consideration applied by the Group is the original intention at the time of acquisition of the asset, as well as the current and future intention.

The intention in respect of back of port properties is for the Group to hold these properties strategically for future development. Until the future strategic purpose of these properties is formalised through the relevant governance structures, they shall be held for capital appreciation.

The Group has areas where multiple buildings are on a single erf (a plot of land) or multiple erfs, defined as one area called a "precinct". Certain buildings may be owner occupied and others rented to third parties or vacant. For classification purposes, a "precinct", station or intermodal hub is assessed in its entirety and is classified as investment property if the relevant criteria are met.

For valuation purposes the external rentals within the "precinct", station or intermodal hub as well as for back of port properties are used as the basis to determine the fair value of these properties using the normalised income method of valuation which entails the capitalisation of the normalised net annual income from the property. The income streams are discounted to present value and capitalised at rates between 12 per cent. and 20 per cent. The capitalisation rates are arrived at after consideration of rates of return, risk, inflation, gross open market rental growth rates, rates of return on alternative investments, expenditure, leases, vacancies and property specific attributes.

Properties which were acquired for administrative purposes but are currently vacant or occupied by a third party tenant with a long-term lease in excess of five years are classified as investment property even though there may be no plans to dispose of the assets. If the lease term is less than five years, the asset is not classified as investment property. If the criteria under IAS 5: *Non-current Assets Held-for-Sale and Discontinued Operations* are met, the asset is classified under Noncurrent Assets Held-for-Sale.

Inventory Provisions

The provision for stock obsolescence is based on a physical count and inspection of inventory items which is performed at least annually and takes into account the age, condition and usage rates of the inventory.

Allowance for Trade and Other Receivables

Allowances for irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The evidence taken into account includes;

- significant financial difficulty experienced by the debtor;
- a breach of contract by the debtor;
- concessions granted to the debtor by the Group to restructure payment terms;
- probability of bankruptcy or financial reorganisation of the debtor; and
- observable data indicating a measurable decrease in estimated future cash flows from a group of debtors even though the decrease cannot yet be identified with individual debtors in the portfolio (including adverse changes in payment status of debtors and changes in the national or local economic conditions that correlate with defaults in the debtors' portfolio).

Decommissioning Liabilities

Provisions raised for the dismantling and removal of an asset as a result of the requirement to restore the site on which the asset is located are computed by discounting estimated future cash flows required to restore the site at rates that reflect the current market assessments of the time value of money and the risks specific to the liability. The amount recognised as a provision is the best estimate of the rehabilitation required and may change from year to year taking into account the changes in intended use of the asset, risks and uncertainties surrounding the obligation.

Environmental Liabilities

The estimation of the future cost of environmental obligations relating to rehabilitation is particularly complex and requires management to make estimates, assumptions and judgements about the future. The estimates are dependent on a number of factors including assumptions regarding environmental legislation, the extent of contamination and discount rates.

Environmental provisions for the remediation of soil contaminated areas include the estimated rehabilitation costs for the historical contamination caused by asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese), fuel and rubble. These obligations arise from environmental legislation requiring the Group to remove waste material and remediate the land. The Group has engaged external consultants to perform risk assessments on identified areas of contamination and the Group's related rehabilitation obligation. A number of factors were considered in determining the obligation, which included:

- the extent of the contamination;
- the cost per ton/square metre/kilometre of removal and disposal of the contamination;
- the cost of rehabilitation of the identified areas of contamination; and
- the costs for the removal and replacement of asbestos roof sheeting and cladding on buildings.

Post-Retirement Benefit Obligations

Refer to note 32 of the Consolidated Financial Statements section of this Base Prospectus for the assumptions and judgements in respect of post-retirement benefit obligations.

Fair Values and Financial Instruments

Bonds

The fair value of bonds is determined by applying the Johannesburg Securities Exchange closing rates with the exchange's bond pricing formula. This is in respect of bonds held for trading and bonds designated at fair value through profit or loss on initial recognition.

Other Non-Derivative Financial Assets and Liabilities

The fair values of other non-derivative financial assets and liabilities are determined based on the net present values of all future cash flows, discounted at the prevailing interest rate curves for the different currencies at the reporting date.

Derivatives

The fair values of derivative financial assets and liabilities are determined based on the net present values of all future cash flows, discounted at the prevailing interest rate curves for the different currencies at the reporting date. Only observable market data is used (not estimates) when constructing the curves and basis swap adjustments are added to provide for liquidity in the market. Black-Scholes principles are used to value options.

Other Financial Instruments

The carrying amounts of financial assets and liabilities with a maturity of six months or less are assumed to approximate fair value.

Legal Claims

The Group's position is based on advice from legal counsel as to whether the claim is possible and/or probable.

BUSINESS

Overview

Transnet is a public company and was incorporated by the Government under the Companies Act, 1973, on 1 April 1990, pursuant to the Legal Succession Act with the Government as its Shareholder. Transnet was formed as a result of the transfer of the commercial enterprise of the South African Transport Services to Transnet as the country's railway, port and pipeline operator. With effect from 1 May 2011, Transnet changed its name from Transnet Limited to Transnet SOC Ltd.

Transnet is the operator, owner and custodian of a major portion of the Republic of South Africa's transport infrastructure, specifically its railway, ports and pipelines. Transnet is a focused freight transport company with the goal of delivering integrated, efficient, safe, reliable and cost-effective services. Transnet's key mandate, as defined by its Shareholder Compact with the Shareholder Representative, is to assist in lowering the cost of doing business, enabling economic growth in the Republic of South Africa and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost effective manner. Transnet seeks to promote economic growth in the Republic of South Africa by providing its customers with access to world-class integrated logistics solutions and by creating transport capacity ahead of demand. Transnet's strategic focus areas are informed by the National Development Plan, which aims to create 11 million jobs by 2030 and reduce the unemployment rate to 6 per cent. and the Statement of Strategic Intent governmental initiatives issued by the Minister of Public Enterprises.

Substantially all of Transnet's revenues are generated in the Republic of South Africa. Over the past seven Financial Years, Transnet has transformed from a diversified conglomerate into a focused rail, port and pipeline operator. Transnet has accomplished this through the sale, closure or transfer of non-core assets and businesses. Transnet's continuing operations are grouped into five divisions according to major transport modes, with central support services unified under one brand. For operational and reporting purposes, Transnet is organised into the following five core business divisions: Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines. The "Other Division" includes Transnet Property, Transnet Capital Projects, Transnet Corporate Centre, and Transnet Foundation. The five core business divisions and the Other Division combined are referred to as the Group.

Transnet Freight Rail is the largest of Transnet's operating divisions by revenue and number of employees. Transnet Freight Rail is focused on transporting bulk and containerised freight along an approximately 20,500 kilometre route rail network.

Transnet Engineering consists of nine product-focused business units that provide services ranging from refurbishment, conversion and upgrades, to the manufacturing and assembly of rail related rolling stock. Most of Transnet Engineering's sales are generated from sales to Transnet Freight Rail and the Passenger Rail Agency of South Africa.

Transnet National Ports Authority is responsible for the safe, efficient and effective economic functioning of the national ports system of the Republic of South Africa, which it owns and manages in a landlord capacity on behalf of the Government. Transnet National Ports Authority is the provider of port infrastructure and marine services at all eight fully operational commercial ports in the Republic of South Africa.

Transnet Port Terminals manages 16 cargo terminals situated across seven of the eight South African ports. It provides cargo handling services for container, bulk, break-bulk and automotive cargos.

Transnet Pipelines transports a range of petroleum and gas products through approximately 3,800 kilometres of underground pipelines, traversing five provinces in the Republic of South Africa, with the strategic objective of ensuring the security of the supply of petroleum products to the inland market.

For the six months ended 30 September 2013, the Group generated revenue of R28,461 million, operating profit of R6,907 million and profit for the period of R2,853 million. For Financial Year 2013, the Group generated revenue of R50,194 million, operating profit of R11,436 million and profit for the year of R4,340 million. For Financial Year 2012, the Group generated revenue of R45,900 million, operating profit of R10,014 million and profit for the year of R4,119 million.

Pursuant to the MDS, Transnet's Capital Expenditure Programme, which commenced in Financial Year 2013, provides for Transnet's continuing operations to invest R307.5 billion (excluding capitalised borrowing costs of

R10.54 billion) over the next seven Financial Years on key corridors and sectors. See "—*Strategy*". The Group's spending under the Capital Expenditure Programme for the six months ended 30 September 2013 (excluding capitalised borrowing costs) amounted to R11.2 billion, with R6.2 billion spent to maintain current infrastructure and equipment and R5 billion spent on expanding capacity. The Group's spending under the Capital Expenditure Programme for Financial Year 2013 (excluding capitalised borrowing costs) amounted to R27.5 billion, with R16.3 billion spent to maintain current infrastructure and equipment and R11.3 billion spent on expanding capacity.

Transnet currently estimates that R121.5 billion will be invested in the next three Financial Years (excluding capitalised borrowing costs). Transnet currently estimates that of the total seven-year R307.5 billion Capital Expenditure Programme, R188.5 billion will be spent on expanding capacity and R119.0 billion will be spent on sustaining existing infrastructure and equipment.

In response to the R307.5 billion capital investment plan, driven by the MDS, Transnet will fund approximately R67.9 billion of the R307.5 billion planned investment through borrowings and will fund the balance from its own revenues. The Capital Expenditure Programme is reviewed and updated annually by the Board of Directors and is subject to change.

Transnet is funded through reserves and borrowings and does not receive cash subsidies from the Government. Transnet raises funds in the debt markets based on the strength of its own balance sheet and it has raised funding without government guarantees since 2005. As a result, Transnet needs to earn an appropriate return on its assets that will allow for the maintenance and expansion of the rail, port and pipeline infrastructure that it owns and operates, while maintaining a strong balance sheet. Notes issued under the Programme are not guaranteed by the Government.

History and Development

Transnet was formed in 1990 as a result of the transfer of the commercial enterprise of the South African Transport Services to Transnet as the country's railway, port and pipeline operator.

For Financial Year 2004, the Group recorded a consolidated loss of R6,332 million under South African generally accepted accounting principles. In August 2004, Transnet adopted the "Turnaround Plan" focused on stabilising the business and creating a platform for growth. The Turnaround Plan was intended to refocus the core operating divisions into an integrated freight transport company and to divest non-core operations. The investment plan that was developed as part of the Turnaround Plan was designed to support the integrated freight transport company model, improving existing services as well as creating future capacity for growth. Although this was a significant challenge in light of the backlog of maintenance and capital investment that needed to be made prior to the execution of the Turnaround Plan, Transnet was able to increase investment significantly during the period from 2005 to 2007, principally as a result of the improvement in Transnet's financial condition and strong improvement in operating cash flows and ability to raise debt financing. In addition, all non-core businesses were identified for disposal, and as of 31 March 2010, Transnet had substantially completed its disposals as part of the Turnaround Plan.

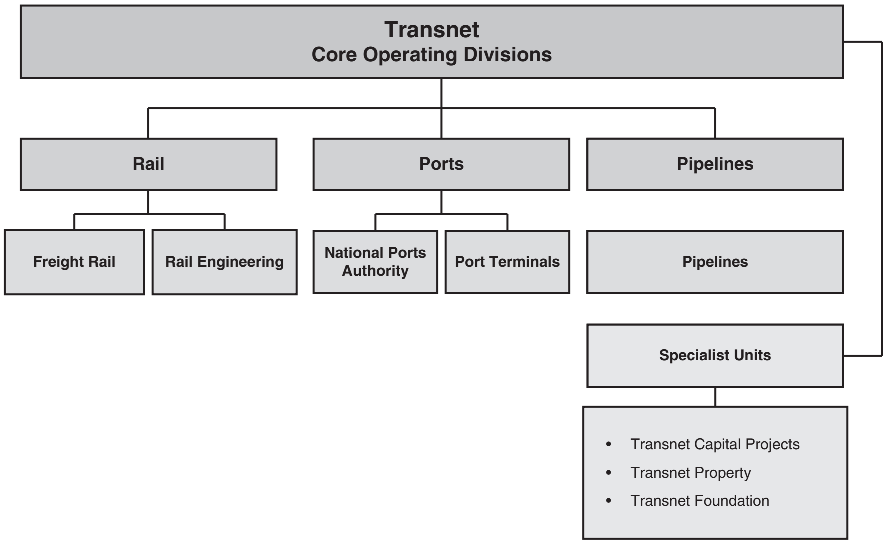
In August 2007, Transnet approved the "Growth Strategy" designed to build on the success of the Turnaround Plan. The four pillars of the Growth Strategy were (i) capital optimisation and financial management; (ii) human resource strategy, (iii) risk management with an emphasis on safety and effective governance; and (iv) re-engineering, integration, productivity and efficiency.

While the Growth Strategy produced operational performance gains, targets were not met fully and the Board of Directors initiated a strategic shift from the Growth Strategy to the "Quantum Leap Strategy". The Quantum Leap Strategy was designed and implemented to enhance operational efficiencies across the Group and to deliver improved reliability and predictability of Transnet's services. While the Quantum Leap Strategy delivered improvements in the port and pipeline operations, volume growth and overall profitability, as a result of rail capacity constraints that hindered the growth of the South African economy, the Board of Directors shifted to the MDS in Financial Year 2013 to increase the Group's capacity to meet the demands of the South African economy for freight transport.

See "*Strategy*" below for further details regarding the MDS.

Current Structure of Transnet

Transnet is 100 per cent. owned by the Government. The diagram below illustrates Transnet's business structure:



Business Strengths

Transnet's business strengths include the following:

Country-wide Reach and Scale

Transnet's integrated system of freight rail, ports and pipelines covers the most economically important corridors in the Republic of South Africa. Its substantial operations and market share in freight rail and its ownership and operation of all the country's commercial ports means that Transnet's operations extend across the whole of the Republic of South Africa and facilitate an international focus. Transnet owns or leases in excess of 2,200 locomotives and 71,000 freight wagons. Transnet National Ports Authority owns and manages, in a landlord capacity on behalf of the Government, the port system of the Republic of South Africa. Transnet National Ports Authority is the provider of port infrastructure and marine services at all eight commercial ports in the Republic of South Africa. Transnet Port Terminals manages 16 cargo terminal operations in seven of the eight South African ports, providing a range of cargo-handling and warehouse services to a wide variety of customers, including shipping lines, freight forwarders and cargo owners in the container, bulk, break-bulk and automotive cargo sectors. Transnet also owns over 3,800 kilometres of pipeline infrastructure.

Focus on Customer Relationships

Transnet focuses on developing and maintaining long-term relationships with strategic customers, which includes participating in industry forums with its top customers to help establish long-term contracts with such customers and steering committees to deal with operational and commercial matters relating to the export of iron ore.

Financial Strength

Transnet believes that its financial strength gives it the resources to implement its strategies and to pursue its Capital Expenditure Programme to upgrade and increase capacity in its network. As at 30 September 2013, the Group had cash and cash equivalents of R5,618 million which, together with the Group's relatively low gearing and historic profitability makes the Group financially strong in the opinion of management.

Captive Markets

Transnet is responsible for the movement and transportation of a significant portion of all bulk commodities transported within the Republic of South Africa. These include export coal, iron ore and manganese under "take or pay" contracts with commodities companies operating in the Republic of South Africa.

Ability to Capitalise on International Growth in Container Transport

The location of the Republic of South Africa at the southern tip of Africa, between two oceans and on major shipping routes means that Transnet's ports and port terminals, as well as the rail network leading from those ports, are well-positioned to capture economic benefits from the international growth in container traffic. Transnet believes that intermodal container traffic will become increasingly important to the South African economy, based on the increasing importance of container supply chains within global production-sharing arrangements. The cost, speed, predictability, reliability, flexibility and connectivity of container supply chains are key determinants of competitiveness for manufacturers, and accordingly Transnet believes that its geographic location on the African continent, coupled with its integrated container transportation strategy, puts it in a strong position to benefit from growth in container transport.

Well Positioned to Capitalise on the Republic of South Africa's Abundance of Metal and Mineral Resources

The integration of Transnet's freight rail network with its ports allows Transnet to capture a significant portion of the transportation revenues associated with the export of the Republic of South Africa's metal and mineral resources as well as imports of manufactured goods. The Republic of South Africa is believed to have the largest known deposits of chromium, manganese and vanadium. It is also among the largest producers of platinum, gold and chromium and has significant deposits of iron ore, coal, manganese, antimony, copper, nickel, lead, titanium, fluorspar, zinc and zirconium. Transnet's network has been able to respond to some of this demand and is well positioned geographically to do so on a cost-effective basis. These commodities are mainly exported, although iron ore is also used by the Republic of South Africa's steel industry. Transnet Freight Rail has a largely dedicated coal line and a dedicated iron ore line to transport coal and iron ore products for export and manages the rail transportation of all other metals and minerals.

Strategy

Market Demand Strategy

In an effort to improve Transnet's performance and customer satisfaction by enhancing operational efficiencies, the Board of Directors initiated the Quantum Leap Strategy in February 2010. However, as a result of insufficient rail capacity constraining economic growth, particularly in respect of the demand for transportation of mining products, Transnet adopted the MDS, which replaced the Quantum Leap Strategy with effect from 1 April 2012.

Pursuant to the MDS, Transnet's Capital Expenditure Programme provides for investment of R307.5 billion over the next seven Financial Years in rail, port and pipeline infrastructure, which represents a slight increase from the previous seven-year, R300.1 billion, capital expenditure programme. As at 31 March 2013, Transnet had already invested approximately R27.5 billion pursuant to the Capital Expenditure Programme (excluding capitalised borrowing costs), with an additional R11.2 billion invested in the six months ended 30 September 2013. The MDS focuses on growing volumes and market share aggressively in order to provide the necessary impetus for the country's economic growth, infrastructure investment and job creation. This has been refined to ensure that Transnet's operational goals are aligned with the Government's developmental objectives. The Capital Expenditure Programme is reviewed and updated annually by the Board of Directors to ensure that Transnet is capable of responding with maximum flexibility to developments in its business and the South African economy more generally. See "*Business—Capital Expenditure Programme*" below for additional details on Transnet's new capital expenditure programme under the MDS.

Management plans to focus on the following components in order to realise the MDS:

Capacity Creation & Maintenance

The substantial increase in capacity that is needed to achieve the MDS is expected to be attained through a combination of efficiency improvements and the investment of approximately R188.5 billion over the course of the entire seven-year Capital Expenditure Programme on both the rail and port network to de-bottleneck the freight logistics' network and address market demand. Additionally, Transnet plans to invest R119.0 billion over the MDS period on projects designed to ensure that the Transnet infrastructure is sustainable and operates efficiently.

Transnet intends to borrow approximately R67.9 billion of the R307.5 billion planned investment in the Capital Expenditure Programme and will fund the balance from its own revenues. The Capital Expenditure Programme will be appropriately phased to ensure Transnet's capital structure and credit rating are not impacted. See "*Business—Capital Expenditure Programme*".

Volume Growth

Transnet's ability to attract the required volume growth to meet available capacity is a key component of the MDS. It is thus essential for Transnet to enter into take or pay contracts with its customers to secure volumes and generate demand.

Operational Efficiencies

Ensuring that Transnet maximises the utilisation of its assets and that additional capacity will be used effectively, depends on achieving operational efficiency improvements. New assets acquired pursuant to the MDS will be committed to improve productivity across the Group.

Socio-economic Goals

Additionally, Transnet intends to focus on other socio-economic areas according to the Company's commercial needs and the Republic of South Africa's broad macroeconomic and developmental objectives including:

- enabling economic integration and lowering transportation costs in the region;
- promoting sustainable growth for the South African economy and job creation;
- prioritising safety, health, environment and quality sustainability and risk management;
- creating regulatory certainty that optimises the social and economic impact of all regulatory interventions into the Group's operations, as well as ensuring regulatory compliance; and
- driving research and deploying new technologies.

Private Sector Participation

The increased capacity and efficiency of the freight system envisioned by the Capital Expenditure Programme is not sufficient to meet the needs of all customers and the economy over the long term. PSP initiatives are therefore critical in bridging this investment gap and ensuring that freight transport capacity leads to, rather than restricts, economic growth. The Board of Directors approved the PSP Framework in 2009 and a PSP policy in 2013 to support the strategy development of PSP, as it recognised that Transnet will not be able to fund, from its own balance sheet, all the investments in port, rail and pipelines that are needed for the Republic of South Africa's required economic growth and to improve the country's international competitiveness.

PSP models are, therefore, expected to be pursued:

- for complimentary funding and/or risk mitigation within the Transnet corporate infrastructure delivery plan, where there are investment opportunities that are considered non-core, for example specialised assets or services, or which are considered unaffordable from a capital commitment perspective to Transnet; and
- through investment opportunities that are complimentary to the Transnet corporate investment plan but still within the identified logistics chain.

Transnet has identified a number of PSP opportunities to support its strategic objectives, primarily focused on bulk commodities (iron ore, manganese and coal) and intermodal container transport, but also including some non-core asset classes.

For coal and bulk commodities, Transnet is considering:

(i) increasing the number of inland loading and common user facilities, including the coal backbone upgrade;

(ii) further developing cross border infrastructure with Botswana, Swaziland and Mozambique;

(iii) implementing major new infrastructure projects, such as doubling the transport capacity of the Overvaal tunnel by constructing a second rail and by increasing coal capacity through the Waterberg heavy haul link; and

(iv) expanding bulk wagon coal capacity beyond 81mtpa.

For the intermodal container transport sector, Transnet is considering:

(iv) constructing an additional deep-water container terminal, the Durban dig-out port; and

(vi) increasing the number of inland freight hubs, such as the Tambo Springs inland port.

Transnet is further considering utilising the PSP model for specialised and non-core assets, such as automotive and timber wagon fleets, branch lines and agriculture terminals.

Branch Line Concessions

In April 2009, the Board of Directors approved a plan to grant the private sector concessions operation of the 7,300 kilometres of classified branch lines (both closed and active). One of the primary objectives of branch line concessioning is to encourage greater use of rail in the agriculture, timber and tourism industries in support of Government's rural development strategy and job creation.

During Financial Year 2011, Transnet issued a non-binding request for intent to determine the extent and type of interest that exists in the private sector for operating its branch lines network and has received expressions of interest from a number of private operators. Transnet has phased the rollout of the branch line concessioning programme and commenced the competitive process of awarding branch line concession rights in 2012. Transnet identified three concession opportunities, namely the Belmont-Douglas, Nkwalini-Empangeni and Kroonstad-Bethlehem Maize Cluster lines. At present, the matter is still in consultation with the KwaZulu Natal, Northern Cape, and Free State provinces, respectively.

Funding Plan and Strategy

Transnet has a robust, structured and well articulated funding strategy, the overall objective of which is to ensure that the Group has sufficient liquidity to meet its requirements without breaching the key financial ratios as agreed in the Shareholder Compact and to maintain Transnet's investment grade credit rating. Transnet utilises a pre-funding strategy whereby it seeks to raise funding ahead of demand and ensure that it maintains a funding buffer of R1.0 billion.

The funding plan also involves diversifying cost-effective funding sources, exploring innovative funding solutions for projects, providing sufficient liquidity and managing financial risks.

In terms of the MDS, Transnet will fund approximately R67.9 billion of the R307.5 billion planned investment through borrowings and will fund the balance from its own revenues. The funding strategy outlines the manner in which Transnet will be funded given that Transnet raises borrowings in the debt capital markets based on the strength of its financial position. Transnet's estimated capital expenditure requirement of R307.5 billion for the MDS period will require the raising of substantial amounts of additional borrowings. Under the current plan, the funding requirements for the next seven Financial Years are estimated to amount to R67.9 billion.

Management anticipates that capital expenditure will be financed by cash from operations, together with domestic and international issues of commercial paper and bonds, bank loans, export credit agency-backed finance and funding from development finance institutions. Commercial paper and committed bank lines are expected to be used to fund working capital requirements and bonds and other long term funding are expected to be used for capital projects or general funding.

Transnet will also consider project finance, PSPs and leasing in order to mitigate any constraints that the increased capital expenditure and the funding thereof may have on its financial position. Furthermore, the Company intends to implement strategies that will reduce the cost of carry of its positive cash balances, such as investment solutions, prepayments and refinancing or prepaying of its existing debt.

Human Capital Strategy

In order to ensure that Transnet is able to attract and retain talented management, engineers and other employees, despite its large, widely dispersed and aging workforce, Transnet plans to continue to devote significant resources to training and development of existing and new employees to meet the current and evolving skill requirements of the Group, the establishment and implementation of career development programmes as part of the talent management process and the development of future leaders through succession planning initiatives. See "*Risk Factors—Transnet is dependent upon key personnel, skilled and highly-skilled employees*."

Transnet has adopted talent management and succession planning for all levels of management and spent R864 million or 4.4 per cent. of total labour cost on training in Financial Year 2013 and expects to spend 5 per cent. of labour costs on training in Financial Year 2014. Furthermore, Transnet plans to increase the number of apprentices, engineers and engineering technicians by 10 per cent. per annum starting in Financial Year 2014. Through such training and career growth initiatives, Transnet has historically met, and in the future expects to exceed, its demand for such skills. As a result, Transnet believes it helps to educate a workforce equipped to assist in the growth of the South African economy as a whole. Additionally, Transnet is committed to targeted recruitment in order to obtain the most skilled workers, as well as to bolster the number of under-represented groups, including women and those with disabilities, to achieve equality in the work place and to develop talented employees for leadership roles. Transnet has also instituted performance based pay incentives to attract and retain talented employees across all levels of seniority.

Risk Management and Effective Governance

Transnet has established the ERM Framework for managing all material risks across the Group in accordance with international standards. The ERM Framework aims to improve the practice of risk management throughout the Group's day-to-day business activities, aligning strategy, processes, people, technology and knowledge so as to evaluate and manage the uncertainties faced by the Group. Transnet believes that its risk management processes have reached a mature stage and consist of strong oversight, management and reporting and escalation of business critical risks to the appropriate governance levels including the Board of Directors and the Shareholder if necessary. The risks identified by the Group are monitored and evaluated by the various governance structures of the Group. These structures are as follows:

Board Committees

Audit Committee: The Audit Committee assists the Board of Directors in discharging its duties relating to the safeguarding of assets and the evaluation of internal control frameworks within the Company. The committee also reviews and assesses the integrity and effectiveness of the accounting, financial, compliance and other control systems.

Board Risk Committee: The Board of Directors has delegated the responsibility for the quality, integrity and reliability of the Group's risk management to this committee. In order for this committee to provide an independent and objective oversight of risk management within the Company, it reviews and assesses the integrity of the risk control processes and systems. The committee further ensures that the risk policies are managed effectively and in accordance with the ERM Framework approved by the Board of Directors from time to time.

Remuneration, Social and Ethics Committee: During Financial Year 2013, the Social and Ethics Committee and the Remuneration and Human Resources Committee were merged to form the Remuneration, Social and Ethics Committee. The Remuneration, Social and Ethics Committee manages the Company's legal and moral obligations within its economic, social and natural environment, and guides the objectives and standards of the Company's conduct and activities. The function of the committee is to monitor the Company's activities, specifically with regard to matters relating to economic, social and natural environment. The committee aims to ensure that the Company's corporate social environment, employment and BBBEE policies and standards are aligned with applicable regulatory requirements, and have due regard for the social and ethical standards and objectives of the Company. It also ensures that the succession planning policy is implemented for the members of the Group Executive Committee and the group of managers that supports the Group Executive Committee in its committee functions.

Corporate Governance and Nominations Committee: The Corporate Governance and Nominations Committee sets the criteria for the nomination of directors to the Board of Directors, Board Committees, the Transnet Second Defined Benefit Fund Board of Trustees and subsidiary boards and ensures that a succession planning policy is implemented in respect of non-executive directors and the Group Chief Executive. The Committee has to maintain the Company's corporate governance policies and Corporate Governance Framework.

Board Acquisitions and Disposals Committee: The Board Acquisitions and Disposals Committee's mandate is to consider and oversee the review of Transnet's procurement and provisioning systems, monitor compliance with procurement policies and practices, monitor trends in procurement spend, consider strategic acquisitions and disposals and make consequent recommendations to the Board of Directors, consider potential PSP models and approve acquisitions (where so delegated by the Board of Directors).

Group Executive Committees

Policy and Regulation Committee: The Policy and Regulation Committee ensures that the Group proactively manages policy and economic regulation risk impacting the Group.

Finance Committee: The Finance Committee reviews overall governance procedures, monitors all financial risks, monitors all shared service, procurement and supply chain and ensures appropriate financial management frameworks, policies, procedures and reporting are adopted throughout the Group.

Risk Management Committee: The Risk Management Committee ensures the quality, integrity and reliability of the Group's risk management.

Human Resources Committee: The Human Resources Committee ensures good governance in respect of remuneration policies and practices (concurrently with the Remuneration, Social and Ethics Committee) and identifies and manages human capital risks.

Capital Investment Committee: The Capital Investment Committee ensures the resources that the Group invests for the creation of capital assets are strategically managed and that such investments comply with applicable risk management processes. The Capital Investment Committee also ensures that targeted returns are achieved.

Business Information Management Committee: The Business Information Management Committee was established to integrate ICT into the business and to manage ICT associated risks.

Health and Safety

Transnet strives to operate and maintain a safe and healthy workplace and is committed to complying with the Occupational Health Safety Act and any other related safety requirements.

Transnet's current initiatives to improve its safety performance include proactive emergency and hazard identification, as well as management, through risk assessment processes, training skilled safety personnel, implementing safety management systems (including planning accident responses based on various scenarios and community education initiatives), providing on-going safety awareness, providing appropriate safety equipment across its various sites, ensuring the maintenance of infrastructure and continuously re-engineering to mitigate risks at their source.

Operations

Transnet is organised into five core business divisions: Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines, each of which is discussed below.

Transnet Freight Rail

Transnet Freight Rail is the largest of Transnet's operating divisions by revenue and assets. Transnet Freight Rail offers rail freight transport services for a variety of commodities to customers in the mining, manufacturing, agriculture, forestry, intermodal and automotive industries as well as cross-border trade with countries within the Southern African Development Community ("**SADC**"). The Transnet Freight Rail division was reorganised in Financial Year 2013 to improve operational efficiencies and service delivery tailored to specific customer segments. The six customer-facing business units that were created are:

(i) agriculture and bulk liquids;

(ii) coal;

(iii) containers and automotive;

(iv) iron ore and manganese;

(v) mineral mining and chrome; and

(vi) steel and cement.

In addition, the rail infrastructure network unit manages the rail infrastructure and focuses on the maintenance, modernisation and expansion of the approximately 20,500 route kilometre (31,000 track kilometre) rail network of which approximately 1,500 kilometres comprises heavy haul lines for export coal and export iron ore. The network includes 3,928 kilometres of branch lines.

Transnet Freight Rail's total segment revenue increased by 9.40 per cent. from R15,770 million in the six months ended 30 September 2012 to R17,253 million in the six months ended 30 September 2013. In the six months ended 30 September 2013, its segment external revenue accounted for 60.32 per cent. of the Group's total external revenue. Transnet Freight Rail's volumes of general freight, export coal and export iron ore transported increased by an average of 2.44 per cent. from the six months ended 30 September 2012 to the six months ended 30 September 2013.

Transnet Freight Rail had total segment revenue of R31,797 million in Financial Year 2013, an increase of 14.96 per cent. in comparison to Financial Year 2012. In Financial Year 2013, its segment external revenues accounted for 60.99 per cent. of the Group's total external revenue. Transnet Freight Rail's volumes of general freight, export coal and export iron ore transported increased by an average of 3.3 per cent. from Financial Year 2012 to Financial Year 2013.

Strategy

Transnet Freight Rail is the largest of Transnet's operating divisions by revenue and assets. Transnet Freight Rail's key objective is to shift freight traffic from using roads to rail by creating capacity ahead of demand, providing a reliable rail service and growing rural and regional economies. This will enable Transnet Freight Rail to meet its mission of transporting large parcel size commodities over longer distances in Southern Africa.

Transnet Freight Rail embarked on the seven-year MDS in Financial Year 2013 with the general aim of:

- creating a favourable and globally competitive South African mining sector;
- facilitating broad-based participation in the South African mining sector; and
- contributing to local and national job creation targets.

Pursuant to the MDS, Transnet Freight Rail intends to focus specifically on:

- enhancing operational efficiency through such initiatives as efficient asset utilisation, planning, resource and cost management, technology updates, reviewing and amending management procedures where appropriate and standardising the types of locomotive and wagons in use;
- promoting and increasing the use of rail over roads for the transportation of freight;
- capital investments to increase capacity ahead of demand and to meet market demand, which are continually reviewed and assessed to ensure the MDS is achieved;
- market development by enhancing customer utility and satisfaction through such initiatives as anticipating and/or responding to demand for new services, improving customer service and customer facing software, developing innovative pricing models to attract demand away from the use of roads for freight transportation to rail, promoting brand awareness in the region, supply chain optimisation and implementing a rural development strategy by providing jobs and training to local communities where Transnet's infrastructure is located;
- its employees to enhance their productivity through training, leadership development, incentive schemes, targeted recruitment and development of promising unemployed graduates as well as apprentices and through the development of more efficient work assignment procedures to better manage labour needs;
- accountability, operational discipline, governance and adherence to procedure in order to enhance efficiency and customer service; and
- safety.

Due to the challenging nature of the MDS, the following issues arose during its implementation in Financial Year 2013 at Transnet Freight Rail:

(i) The slowdown in the economic climate as well as high levels of labour strike action in key customer industries negatively impacted volumes available in key market segments. The strategy was developed based on high growth projections for global economic conditions which were subsequently revised downward in the second half of Financial Year 2013.

(ii) Commodity trading prices of key export commodities such as coal, manganese, chrome and iron ore declined and had a significant negative impact on the ability of customers to trade, resulting in lower tons being exported. These factors resulted in lower than expected demand for rail services in Financial Year 2013.

(iii) Cancellation of trains by customers due to strike action and production issues negatively impacted tonnages in Financial Year 2013. Lack of investment by customers in loading equipment is beginning to hamper Transnet Freight Rail's ability to provide a reliable and on time service.

(iv) The age of rolling stock continued to be a challenge in certain parts of the network resulting in unplanned downtime and additional maintenance expenditure, which adversely impacted customer service improvements.

(v) Safety and security incidents remain a challenge to operational performance, although improvements are being made.

Services

Transnet Freight Rail provides the railway infrastructure for the transport of goods in the Republic of South Africa including lines, yards and goods sheds as well as rolling stock, depots and storage. Transnet Freight Rail is focused on three key types of freight: general freight (which includes coal and iron ore for domestic use in the Republic of South Africa and exports, which are transported along the national main line corridors between economic and mining hubs in the Republic of South Africa), export coal and export iron ore.

In the six months ended 30 September 2013, within Transnet Freight Rail (i) the Coal business unit accounted for approximately 39.56 per cent. of total tonnage and 33.27 per cent. of total revenue, (ii) the Iron Ore and Manganese business unit accounted for approximately 29.71 per cent. of total tonnage and 22.44 per cent. of total revenue, (iii) the Steel and Cement business unit accounted for approximately 10.64 per cent. of total tonnage and 14.82 per cent. of total revenue, (iv) the Mineral Mining & Chrome business unit accounted for approximately 8.64 per cent. of total tonnage and 12.62 per cent. of total revenue, (v) the Agriculture and Bulk Liquids business unit accounted for approximately 5.48 per cent. of total tonnage and 9.37 per cent. of total revenue and (vi) the Container and Automotive business unit accounted for approximately 5.97 per cent. of total tonnage and 7.48 per cent. of total revenue.

For Financial Year 2013, within Transnet Freight Rail (i) the Coal business unit accounted for approximately 40.6 per cent. of total tonnage and 36 per cent. of total revenue; (ii) the Iron Ore and Manganese business unit accounted for approximately 30.9 per cent. of total tonnage and 23 per cent. of total revenue; (iii) the Steel and Cement business unit accounted for approximately 10.1 per cent. of total tonnage and 14 per cent. of total revenue; (iv) the Mineral Mining & Chrome business unit accounted for approximately 7.8 per cent. of total tonnage and 11 per cent. of total revenue, (v) the Agriculture and Bulk Liquids business unit accounted for approximately 5.4 per cent. of total tonnage and 9 per cent. of total revenue; and (vi) the Container and Automotive business unit accounted for approximately 5.2 per cent. of total tonnage and 7 per cent. of total revenue.

In the six months ended 30 September 2013, Transnet Freight Rail achieved 105.8 mt in volume of freight transported compared to 103.3 mt in the six months ended 30 September 2012.

Transnet Freight Rail achieved a historical high in volume of freight transported in Financial Year 2013 of 207.7mt, compared to 201mt in Financial Year 2012, as a result of the success of the Transnet Freight Rail's market growth and its strategy of promoting rail as opposed to road transportation of freight.

Customers

Transnet Freight Rail's major customers in each business unit include, but are not limited to:

Agriculture and Bulk Liquids:	Pioneer Foods, Tiger Brands, Sappi, Mondi, Omnia, Nitrophoska, Foskor Sasol, Shell, Engen, BP South Africa, Total South Africa
Coal:	Anglo Coal, BHP Billiton, Kangra Coal, Sasol Mining, Total Coal, Xstrata, South Dunes Coal, Exxaro Coal, Optimum Coal
Containers and Automotive:	MSC Logistics, Safmarine, Bidfreight, Grindrod, Bankfordgrove, Volkswagen, Toyota, Ford Motor Company of South Africa
Iron Ore and Manganese:	Kumba Resources, Assmang, Burk Mining, Sedibeng, Manganese, BHP Billiton, United Manganese of Kalahari, Tshipi é Ntle, Kalagadi
Mineral Mining and Chrome:	Phalaborwa Mining Company, Foskor, Xstrata, Richards Bay Minerals, Samancor
Steel and Cement:	Arcelormittal Evraz Highveld Steel & Vanadium, Xstrata, PPC Cement, Afrisam, Lafarge Industries, NPC - Cimpor

Transnet Freight Rail's top 20 customers by total tonnage and revenue contribution for the six months ended 30 September 2013 are reflected in the table below:

Rank	Customer	Tons (mt)	Revenue (Rm)	Contribution Tons per cent.	Contribution Revenue per cent.
1	Sishen Iron Ore Co	19.78	1,506	18.7	9.0
2	Anglo	8.84	1,122	8.4	6.7
3	Assmang LTD	8.65	1,237	8.2	7.4
4	BHP Billiton Energy Coal SA LTD	7.27	943	6.9	5.6
5	Xstrata	6.5	914	6.1	5.5
6	Eskom	5.48	625	5.2	3.7
7	Arcelormittal SA	5.45	1,599	5.2	9.6
8	Optimum Coal Terminal PTY LTD	3.5	440	3.3	2.6
9	Sasol	2.43	390	2.3	2.3
10	Total	2.24	331	2.1	2.0
11	Palabora Mining CO LTD	2.11	608	2.0	3.6
12	PPC Cement PTY LTD	1.9	261	1.8	1.6
13	Exxaro Coal PTY LTD	1.6	246	1.5	1.5
14	Samancor Manganese LTD	1.39	481	1.3	2.9
15	Evraz Highveld Steel & Vanadium LTD	1.25	142	1.2	0.9
16	Afrisam SA PTY LTD	1.19	226	1.1	1.4
17	Foskor LTD	1.18	313	1.1	1.9
18	South Dunes Coal Terminal (PTY) LTD	0.99	168	0.9	1.0
19	MTC Consultants CC	0.96	292	0.9	1.7
20	Kangra	0.96	131	0.9	0.8
21	Other Customers	22.13	4,753	20.9	28.4
	Total	**105.8**	**16,730**	**100**	**100**

Transnet Freight Rail's top 20 customers by total tonnage and revenue contribution for Fiscal Year 2013 are reflected in the table below:

Rank	Customer	Tons (mt)	Revenue (Rm)	Contribution Tons per cent.	Contribution Revenue per cent.
1	Sishen Iron Ore CO	41.6	2,912	20	9.66
2	Assmang LTD	17.4	2,309	8.4	7.66
3	Anglo	16.8	2,154	8.1	7.15
4	Arcelormittal SA	10.0	2,658	4.8	8.82
5	BHP Billiton Energy Coal SA LTD	14.7	1,813	7.1	6.02
6	Xstrata	14.4	1,904	6.9	6.32
7	Eskom	10.5	1,116	5.1	3.71
8	Optimum Coal Terminal PTY LTD	7.0	834	3.4	2.77
9	Sasol	4.8	754	2.3	2.50
10	Palabora Mining CO LTD	3.5	925	1.7	3.07
11	Samancor Manganese LTD	3.1	1,014	1.5	3.37
12	Total	4.2	575	2.0	1.91
13	PPC Cement PTY LTD	3.5	452	1.7	1.50
14	Foskor LTD	2.4	601	1.2	1.99
15	Evraz Highveld Steel & Vanadium LTD	2.6	301	1.3	1.00
16	Exxaro Coal PTY LTD	2.4	310	1.2	1.03
17	South Dunes Coal Terminal (PTY) LTD	2.2	381	1.1	1.27
18	Afrisam SA PTY LTD	2.2	409	1.1	1.36
19	United Manganese Kalahari PTY LTD	1.6	549	0.8	1.82
20	Sappi LTD	2.1	317	1.0	1.05
21	Other Customers	40.3	7,842	19.4	26.02
	Total	**207.7**	**30,139**	**100**	**100**

Source of Revenue and Pricing

Transnet Freight Rail's primary source of revenue is generated through the transportation of commodities by rail and is expressed in revenue generated per ton (R/ton). Miscellaneous income (for example use of auxiliary rail equipment) as well as penalties where customers do not follow procedures or adhere to agreements (for example loading and offloading of wagons within agreed norms) is applied to ensure revenue protection and asset utilisation.

Revenue per ton, on average, has increased since 2005 for each of export coal, export iron ore and general freight as a result of tariff increases as well as optimising the traffic (sales) mix given the resources available. See also "*Operating and Financial Review—Significant Factors Affecting the Group's Past Financial Condition and Results of Operations—Volume and Pricing*". Transnet Freight Rail tariff increases are agreed with the Department of Public Enterprises in the form of a Shareholder Compact and are currently not subject to approval by any external agencies. The Department of Transport, however, issued a draft Rail Reform Green Paper for stakeholder comment in April 2012. In accordance with the Rail Reform Green Paper, the Department of Transport may institute tariff controls or approvals in the future through the establishment of a rail economic regulator. If a rail economic regulator is established, Transnet Freight Rail would have to seek its approval for tariffs.

Volumes and therefore revenue is secured in the form of commercial contracts between Transnet Freight Rail and its customers. Transnet Freight Rail also enters into "take or pay agreements" where appropriate and possible to ensure volume commitments. These contracts provide for payments to Transnet if the volume of transportation contracted for is not provided to Transnet. Some "take or pay" contracts include reciprocal arrangements based on volume commitments and capacity provisions. For example export coal is currently transported under "take or pay" contractual arrangements between Transnet and coal export customers. These contracts provide for payments to Transnet if the volume of transportation contracted for is not provided to Transnet. Reciprocal arrangements in favour of coal exporters also exist if Transnet does not provide the required capacity as per agreement. Reciprocal arrangements work in the following way. First, export coal parties guarantee that they will make available a certain level of export coal for Transnet Freight Rail to transport. If the customer does not supply the required coal, Transnet Freight Rail is entitled to receive a penalty payment equivalent to 80 per cent. of the average coal export tariff per tonne applicable to that customer for coal not provided to be transported. Second, if Transnet Freight Rail is not able to transport the minimum guaranteed tonnages, it will pay a penalty equal to 80 per cent. of the average coal export tariff per tonne not transported. Third, Transnet Freight Rail must offer transportation capacity to export coal customers in proportion to their contractual rights. Should a customer not receive their equitable share, the prejudiced party is entitled to receive a penalty payment equal to 100 per cent. of the applicable export tariff.

Similar contracts exist for some (mostly mining) commodities in the general freight segment as well as for the iron ore export customers.

Assets, Capacity and Development

Transnet Freight Rail owns most of the tracks it uses for transport, the underlying land, the overhead lines used for distributing the electricity from Eskom and all of the rolling stock that it currently uses. Rolling stock capacity has generally grown with volume transported. The rolling stock fleets are being modernised as part of the MDS.

The strategic intent of the MDS remains relevant to Transnet Freight Rail's operations. However, growth has been constrained by the slowdown in global and local economic activity. Projections are largely dependent on both domestic and global economic activity.

The following table sets forth certain business performance statistics relating to Transnet Freight Rail's operations for Financial Years 2011, 2012 and 2013 and for the six months ended 30 September 2013:

Key performance area and indicator	UoM	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	Six months ended 30 Sept 2013 Actual
Volume and revenue growth							
Commodity classification							
General freight business	mt	73.7	81.0	90.3	82.6	91.2	44.2
Export coal	mt	62.2	67.7	75.0	69.2	77.0	34.6
Export iron ore	mt	46.2	52.3	59.5	55.9	61.5	27.0
Total volumes	mt	182.1	201.0	224.8	207.7	229.7	105.8

Key performance area and indicator	UoM	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	Six months ended 30 Sept 2013 Actual
Volume and revenue growth							
Detailed commodity classification (GFB)							
Export manganese (PE)	mt	4.2	5.5	4.8	5.20	5.1	2.5
Domestic coal Eskom	mt	7.1	8.5	12.0	10.5	11.8	5.5
Export coal (Non-RBCT)	mt	3.5	5.7	6.0	5.2	7.3	2.4
Domestic coal (Other)	mt	8.5	8.2	8.9	8.1	8.2	4.2
Containers	TEUs (Thousand)	612.0	652.7	832.5	690.0	734.5	405.8
Containers incl. Eskom	TEUs (Thousand)	627.8	762.7	970.7	857.3	921.2	513.6
Financial value creation							
EBITDA margin	per cent.	36.0	38.1	44.9	41.6	43.8	40.7
Operating profit margin	per cent.	15.7	18.7	27.6	22.4	24.9	22.9
Gearing	per cent.	nm	nm	49.9	49.9	53.9	46.3
Net debt to EBITDA	times	nm	nm	2.1	2.4	2.5	2.2
Return on average total assets	per cent.	7.7	9.2	13.9	11.2	11.3	10.6
Asset turnover	times	0.49	0.49	0.45	0.48	0.42	0.46
Cash interest cover	times	nm	8.4	6.8	5.3	4.9	4.2
Infrastructure							
Capital investments[(a)]	R million	12,542	14,792	19,512	18,277	19,019	7,497
Operational efficiency							
General freight business							
Locomotive efficiency[(b)]	GTK 000/ locomotive/ month	5,121	5,167	5,500	4,973	5,370	4,931
Wagon turnaround time	days	12.6	11.5	9.2	11.3	8.6	11.14
Export coal							
Locomotive efficiency[(b)]	GTK 000/ locomotive/ month	13,505	23,845	24,700	24,998	26,810	25,109
Wagon cycle time	hours	72	66	58	68	56	68.1
Export iron ore							
Locomotive efficiency[(b)]	GTK 000/ locomotive/ month	38,866	43,110	44,000	47,530	55,000	51,430
Wagon cycle time	hours	85	93	78	94	76	94.82
Service delivery							
General freight							
On-time departures (minutes deviation from scheduled time)	minutes	350	284	225	280	225	217.6
On-time arrivals (minutes deviation from scheduled time)	minutes	434	357	260	356	260	333.8
Export coal							
On-time departures (minutes deviation from scheduled time)	minutes	234	209	160	206	120	102.5
On-time arrivals (minutes deviation from scheduled time)	minutes	468	375	325	332	240	173.9

Key performance area and indicator	UoM	2011 Actual	2012 Actual	2013 Target	2013 Actual	2014 Target	Six months ended 30 Sept 2013 Actual
Export iron ore							
On-time departures (minutes deviation from scheduled time)	minutes	161	67	60	73	60	33
On-time arrivals (minutes deviation from scheduled time)	minutes	285	133	120	140	120	233
Human capital							
Employment equity	per cent.	77.6	80.4	75	82	76	82
Training spend (per cent. of personnel cost)	per cent.	2.2	2.6	3.9	3.7	3.0	1.34
Employee turnover	per cent.	5.1	5.0	5.0	4.4	5.0	2.11
Employee headcount (permanent)	number	23,665	26,850	30,425	29,625	34,004	29,303
Safety, health and environment							
Cost of risk	per cent. of revenue	7.0	4.9	5.5	4.6	5.5	5.2
DIFR	rate	1.22	0.90	1.25	0.86	1.20	0.95
Number of derailments – Mainline	number	125	87	71	85	85	56
Number of derailments – Shunting	number	363	294	205	296	247	130

(a) Excluding capitalised borrowing costs
(b) Excluding shunting and B-fleet locomotives
nm – not measured

Transnet Engineering

Transnet Engineering provides rolling stock engineering and maintenance services to Transnet Freight Rail, Transnet Port Terminals, the Passenger Rail Agency of South Africa and other rail operators both regionally and internationally. Transnet Engineering comprises nine product focused businesses. The division is dedicated to in-service maintenance, repair, upgrade, conversion and manufacture of assets in its:

- locomotive business;
- coach business;
- wagon business;
- port business;
- wheels business;
- rolling stock equipment business;
- rotating stock equipment business;
- auxiliary business; and
- foundry business.

Transnet Engineering's total segment revenue decreased by 6.0 per cent. from R6,213 million in the six months ended 30 September 2012 to R5,841 million in the six months ended 30 September 2013. In the six months ended 30 September 2013, its segment external revenues accounted for 2.36 per cent. of the Group's total external revenue.

Transnet Engineering had total segment revenue of R13,063 million in Financial Year 2013, an increase of 15.95 per cent. as compared to Financial Year 2012. In Financial Year 2013, its segment external revenues accounted for 2.73 per cent. of the Group's total external revenue.

The division operates from six centres, namely Cape Town, Uitenhage, Bloemfontein, Durban, Germiston and Pretoria. These centres are supported by approximately 132 maintenance depots close to the main rail corridors, providing in-service maintenance and out-of-service refurbishing, repair, upgrade, conversion and new build on locomotives, wagons and coaches as well as the re-manufacturing of major sub-components.

The division's competency is based on its technological knowledge relating to its ongoing product research and development and its product application experience. The division seeks to establish a comprehensive 'total service' solution for railway operators in order to achieve optimum fleet availability and reliability by applying a high standard of precision, combined with integrated maintenance and lifecycle management. Together, these businesses have the capacity to support a fleet size of 75,000 freight wagons, 2,500 locomotives and 5,000 coaches. Upgrade, conversion, wreck repair and build capacity extends to approximately 2,000 new wagons, 350 locomotives and 800 coaches per year. Work is performed in accordance with railway standards and codes of practice, and all Engineering depots are ISO 9001:2008 accredited.

Strategy

Transnet Engineering aims to grow external revenue and expand its regional and international footprint in accordance with the MDS.

<u>African Growth</u>

Transnet Engineering aims to achieve external revenue growth in Africa through its "African Growth Strategy", approved by the Board of Directors, by:

- building stronger relationships with regional railways by (i) providing excellent technical and maintenance solutions to their rolling stock; and (ii) leveraging Transnet Engineering's engineering schools to provide training and development to railway employees in the region;
- partnering with OEMs to maintain and refurbish rolling stock sold in Africa;
- partnering with mining companies that have rolling stock but lack the expertise to maintain the rolling stock and/or appropriately manage the amount of rolling stock for their business requirements; and
- aligning Transnet Engineering's business plans with those of funding agencies and government agencies such as the Industrial Development Corporation, the Development Bank of South Africa (the "**DBSA**") and the Department of Trade and Industry of South Africa (the "**DTI**") in order to leverage existing and potential relationships with other African countries.

<u>International Growth</u>

Transnet Engineering conducted market research into the 1,067mm locomotive gauge market in Asia and South America to assess demand opportunities in these regions for Transnet Engineering's products and services. Transnet believes it has the ability to enter and grow in these markets by leveraging its technical expertise to forge partnerships with railways, OEMs and mining companies.

<u>Internal Group Goals</u>

In addition, Transnet Engineering aims to support Transnet's other operating divisions, particularly Transnet Freight Rail, by providing technical and maintenance (including in-services maintenance) expertise of both rolling stock and port equipment.

Services

Transnet Engineering is comprised of nine product-focused businesses, each dedicated to a specific group of railway rolling stock equipment. These businesses comprise of the wagon, locomotive, coach, rolling stock equipment, rotating machines, wheel, auxiliary, port equipment and foundry businesses. The wagon, locomotive, coach and port equipment businesses are the primary customer-facing entities and revenue generators, while the other five operational businesses provide a supporting role within the Group generally, with the exception of the auxiliary business, which is directly focused on serving Transnet Freight Rail and provides a variety of services including container refurbishment, the manufacture and repair of canopies, as well as upholstery and carpeting for coaches.

While distinct in their operations, the businesses complement one another to enable the division to supply a wide range of specialised products. Transnet Engineering provides:

- refurbishment, upgrade, manufacturing and maintenance of electrical alternating current ("**AC**") and direct current ("**DC**") diesel locomotives;
- manufacturing and maintenance of freight wagons for various commodities;

- overhaul, upgrading, new build and maintenance of suburban and mainline passenger rail coaches;
- engineering services to ports across the SADC region; and
- associated components and services, such as rotating machines, rolling stock equipment, cast components, wheels, tarpaulins, intermodal containers, cleaning and logistic services, and port and terminal equipment.

Transnet Engineering's performance is assessed in terms of locomotive reliability and availability. A locomotive is considered unavailable for service during the time it is not under the control of the operating department. An unavailable locomotive will be either undergoing or awaiting service, maintenance or repair in a maintenance facility such as a depot, shed or workshop, or it will be broken down outside maintenance facilities. Conversely, a locomotive is considered available for service during the time it is not deemed unavailable. Availability is typically measured in locomotive hours. Reliability is measured in failure per million kilometres. These metrics are set out below, broken down for the three principal categories of freight transported by Transnet Freight Rail and for the six months ended 30 September 2013 and 2012 as well as for Financial Years 2013, 2012 and 2011.

	For the year ended 30 September		For the year ended 31 March		
	2013	**2012**	**2013**	**2012**	**2011**
Efficiency					
Locomotive reliability					
General freight (faults per million km)	24.97	21.9	19.6	25.0	27.6
Coal (faults per million km)	47.3	32.8	30.0	33.0	43.6
Iron ore (faults per million km)	10.9	14.5	9.6	14.0	18.3
Locomotive availability					
General freight (Daily snapshot of number of locomotives available to Operations as a percentage of the active fleet)	91.5	90.6	90.8	90.5	89.6
Coal (Daily snapshot of number of locomotives available to Operations as a percentage of the active fleet)	89.5	89.4	89.2	90.6	90.2
Iron ore (Daily snapshot of number of locomotives available to Operations as a percentage of the active fleet)	91.9	91.5	91.7	90.5	88.2

Customers

Transnet Engineering is the major provider of services in the South African market for maintenance, repair, refurbishment, conversion, and new build of locomotives, wagons and coaches for use in freight and passenger rail operations. Further, Transnet Engineering is responsible for the availability and reliability of Transnet Freight Rail's rolling stock. For Financial Year 2013, the principal customer of Transnet Engineering was Transnet Freight Rail, the only domestic mainline freight railway operator, which provided 89.5 per cent. of the segment total revenue. For Financial Year 2013, Transnet Engineering's principal external customer was the Passenger Rail Agency of South Africa, which provided 5 per cent. of the total segment revenue.

Transnet Engineering's external revenue in the six months ended 30 September 2013 was split between three major customers, namely Botswana Railways (23 per cent.), Corredor de Desenvolvimento do Norte (Mozambique) (17 per cent.) and General Electric South Africa Technologies (16 per cent.), which is a significant shift from previous financial years, where the Passenger Rail Agency of South Africa accounted for approximately 30 per cent. of external revenue.

Transnet Engineering is increasing its presence as a provider of services in the African market for maintenance, repair, refurbishment, conversion and new build of locomotives, wagons and coaches as evidenced by past and current activities in Ghana, Mozambique and Botswana.

Source of Revenue and Pricing

Transnet Engineering's tariffs are not subject to approval by any external agencies. Tariffs are currently set on a cost-recovery basis to assist Transnet Engineering in generating a reasonable commercial return on work performed for other divisions in the Group. In Financial Year 2008, decisions were taken at the Group level to provide Transnet Engineering's services to Transnet Freight Rail at reduced internal pricing margins.

Intellectual Property and Technology

Technology is fundamental to Transnet Engineering's business. Transnet has established relationships with OEMs and railway engineering specialists across the globe. Transnet is working with OEMs and others to address obsolescence in rolling stock manufacturing and refurbishment. These range from technologies to replace single components to major upgrades of locomotives in collaboration with OEMs. Furthermore, Transnet Engineering is firmly focused on the future through its dedicated research and development and innovation function designed to enhance and optimise existing products and services, to develop new products and services for the African market and to invest in fundamental research activities.

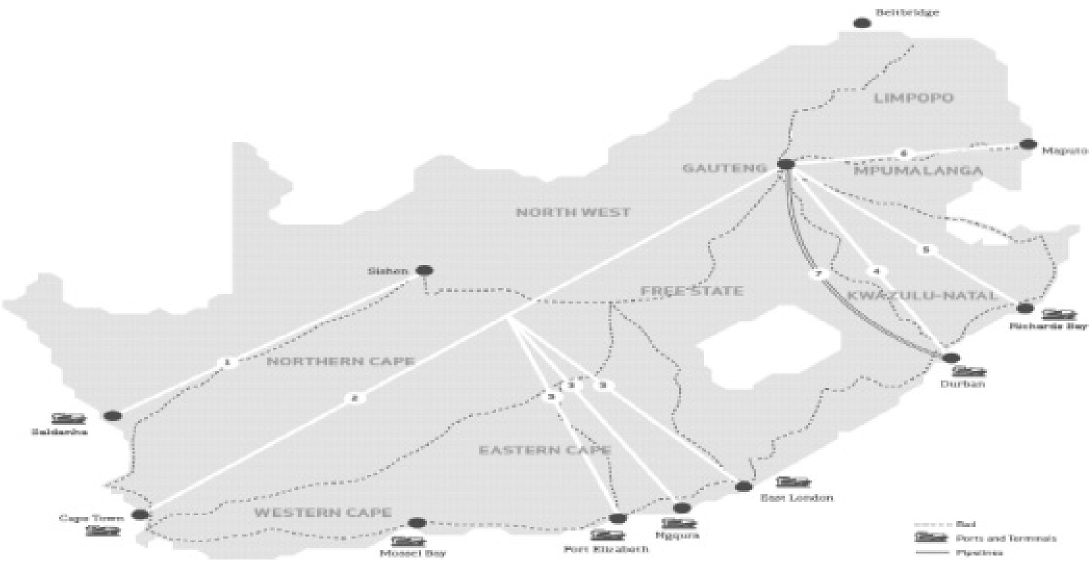
Transnet Engineering incorporates leading practices in engineering into its product portfolio. Transnet Engineering has its own in-house design office, which was also enhanced by the integration with the maintenance department of Transnet Freight Rail on 1 June 2006.

Transnet National Ports Authority

Transnet National Ports Authority is responsible for the safe, efficient, effective and economic functioning of the national ports system, which it manages, controls and administers on behalf of the Government. It owns and manages eight ports within the Republic of South Africa: Saldanha, Cape Town, Mossel Bay, East London, Port Elizabeth, Durban, Richards Bay and the Port of Ngqura.

Transnet National Ports Authority's business is divided into two key operational areas: port infrastructure and maritime operations. Port infrastructure and maritime services (which includes dredging, navigation aids, ship repair and marine operations) are provided in five market segments: containers, dry bulk, liquid bulk, break-bulk and automotive. The major commodities handled at the ports are coal, iron ore, containers, automotives, steel, fruit, ferrochrome, petroleum products and manganese.

The following map indicates the locations of Transnet National Ports Authority's eight ports as well as the key corridors in which Transnet operates:



Transnet National Ports Authority offers a combination of complementary port facilities and services. Each port has a natural geographic territory with a defined market, which drives the nature of services, facilities and the types of cargo handled at each port. A fundamental factor that links these ports is the backdrop of rapidly increasing trade resulting from the country's economic growth and globalisation. See "*Operating and Financial Review—Significant Factors Affecting the Group's Past Financial Condition and Results of Operations—Economic Review*".

South African ports have experienced compound annual growth in volume of 4.1 per cent. from Financial Year 2007 to Financial Year 2013. To meet the volume demand resulting from economic growth, ports were under pressure to create capacity and increase efficiencies. Transnet National Ports Authority contributed approximately 15.88 per cent. to the Group's total external revenue as at 30 September 2013 and 14.76 per cent. to the Group's total external revenue in Financial Year 2013, with container, break-bulk, automotive, dry bulk and liquid bulk contributing R4,260 million, R250 million, R579 million, R820 million and R588 million, respectively, of external revenues in Financial Year 2013. Transnet National Ports Authority had total segment revenue of R5,040 million in the six months ended 30 September 2013, an increase of 19.83 per cent. as compared to R4,206 million in the six months ended 30 September 2012. Transnet National Ports Authority had total segment revenue of R8,328 million in Financial Year 2013, an increase of 0.86 per cent. as compared to R8,257 million in Financial Year 2012. In Financial Year 2013, Transnet National Ports Authority received an average tariff increase of 2.76 per cent. in comparison with Financial Year 2012. Transnet National Ports Authority's total segment revenue declined by 0.86 per cent. to R8,328 million in Financial Year 2013 from R8,257 million in Financial Year 2012.

Strategy

Transnet National Ports Authority's strategic goal is to enable the safe, efficient, effective and economic functioning of an integrated port system, that will lead to economic growth for the Republic of South Africa and the region as a whole. The division's three-tier strategy focuses on (i) creating port infrastructure capacity ahead of demand, (ii) improving the efficiency of port systems and (iii) enhancing the ports' position as integrated gateways for trade.

Port Infrastructure

Durban: The Port of Durban has a total land and water area of 1,854 hectares. The port has 58 berths and over 4,500 commercial vessels call at the port each year. It was developed primarily for import cargo. However, over the years, cargo flows have changed significantly and exports have become more important.

The Port of Durban is the Republic of South Africa's main general cargo, bulk liquid and container port. The Port of Durban Container Terminal (the "**DCT**") is the second largest in Africa based on TEUs processed. The port also has a dry-dock for ship repair.

The Port of Durban has generally experienced growth in volumes since the development of the DCT in 1977. The port has two dedicated container terminals and two separate facilities that handle automobiles and petrochemicals respectively.

Cape Town: The Port of Cape Town is a full service, general cargo port, operating 24 hours a day, seven days a week. Marine services include port navigation, pilotage, towage, mooring, pollution control, security and a 200 tonne floating crane. Bunkers are supplied at a few dedicated bunker berths together with a bunker barge to service the remaining berths. Two dry docks and a ship lift facility are available for ship repairs. Conventional cargo is worked in the Duncan dock where undercover, open and cold storage is available. Extensive pre-cooling facilities at specialised terminals cater for fish, deciduous and citrus fruit exports. A container terminal is situated at the Ben Schoeman dock. This together with the Combi Terminal in the Duncan dock facilitates container handling in the port.

All of the container berths' quays are equipped with modern cranes and mechanical lifting equipment. The Port of Cape Town is fully equipped to handle all types of break-bulk, bulk and containerised cargo through its specialised terminals. It has the benefit of a wide variety of well-equipped cargo terminals linked to a well-established inland transport infrastructure. Additionally, Cape Town is a popular destination for the cruise industry and the port has recently developed a passenger terminal to cater for growing numbers of cruise vessels into Cape Town. Vessels calling are typically containers, conventional, reefer, fishing, passenger, research and oil & gas supply vessels.

The Port of Cape Town is well positioned to serve as a hub for cargoes between Europe, the Americas, Africa, Asia and Oceania. Regular inter-port feeder services benefit the container terminal, which is regarded as a gateway for African countries. The container terminal also benefits from direct rail links with the Gauteng area, which can decrease transit time for some containers. This is made possible by the direct railing of containers which eliminates the sailing time to other ports in south Africa.

Richards Bay: The Port at Richards Bay was initially built as a bulk port to export 26 million tonnes of coal over the first ten years. The port has since diversified and now handles other types of cargoes. The Port of Richards Bay handled in excess of 90 million tonnes for Financial Year 2013. This makes it the Republic of South Africa's leading port in terms of volume handled. The Port is also the largest in the Republic of South Africa in terms of surface area, with total port area of 3,773 hectares (2,026 hectares of land and 1,746 hectares of water area). The gross lettable land area amounts to 899.1 hectares of which 635.5 hectares are leased and 39.4 hectares are currently not being utilised. In terms of the port's development, undeveloped land of 75.9 hectares has been allocated for medium term port development and a further 148.3 hectares is reserved for long-term future port expansion.

The port has six cargo handling terminals, including a dry bulk terminal for imports and exports of ores, minerals and woodchips, a multi-purpose terminal for break-bulk cargo, including ferrochrome, pig iron, steel, forest products, granite, aluminium, bagged cargo, containers, heavy and abnormal loads, and one of the largest export coal terminals in the world with a current capacity to export 91 million tonnes per annum, as well as a chemical tank farm for liquid bulk products stored in tanks.

Port Elizabeth: The port of Port Elizabeth is the fifth largest port in the Republic of South Africa, based on tonnage handled, and the fourth largest in terms of revenue earned, based on information for Financial Year 2013. The Port has one of the Republic of South Africa's five container terminals, as well as an automobile terminal and bulk, dry bulk, liquid bulk, general cargo and cold storage facilities.

Transnet aims to position the port as Sub-Saharan Africa's premier port and automotive transhipments hub as a result of what Transnet believes to be a geographically well positioned, customer centric and flexible port service.

Most of the cargo flowing through Port Elizabeth is generated in, or is destined for, the greater Algoa Bay area, reaching up to the Sundays River and Langkloof Valleys. Some cargo is transported by rail and road to and from the Free State and Gauteng. The Port Elizabeth area is heavily industrialised and intensively farmed. Traditionally, Port Elizabeth and nearby Uitenhage, which is part of the Nelson Mandela Metropolitan Municipality, have been the centre of the South African automotive industry. As a result, Port Elizabeth imports large volumes of containerised components and raw materials for this industry. Fully built units are also imported and exported.

The bulk of exports consist of agricultural products: timber, wool, textiles, skins and hides in containers, as well as palletised citrus and deciduous fruit. Manganese ore, automotive industry related products and steel are also exported.

As part of Transnet's drive towards sustainability and future growth, the manganese and liquid bulk terminal at Port Elizabeth will be decommissioned in 2016 and 2017 respectively and a new state of the art automotive terminal will take its place in Financial Year 2020. Additionally, Transnet plans to deepen the container berths, basin and entrance channel at the port, thereby increasing the terminal capacity by one million TEU's (from 500,000 to 1,500,000), as well as increasing the number of berths from two to three, increasing the port depth from 12.2 to 16 meters and developing the surrounding marina, which will be dedicated to leisure and recreational activities such as restaurant, cafes, yachting, and angling, by Financial Year 2019.

Saldanha: The Port of Saldanha is the only iron ore handling port in the Republic of South Africa. It exports iron ore from the mines at Sishen and Khumani in the Northern Cape (some 861 kilometres north-east of Saldanha). The port also handles base metals, mineral sands, steel and granite, and serves as an import port for a crude oil storage facility situated near the port.

Although the Port of Saldanha was originally constructed during the early 1970s to facilitate the export of iron ore and bulk crude oil, break-bulk terminals were subsequently added to the port facilities in the port. Port facilities consist of a 990 metre long jetty with two iron ore berths and one crude oil berth joined to the north shore of the harbour by a 3,100 metre causeway. In addition, there is an 874 metre multi-purpose terminal quay facility for break-bulk cargo handling.

East London: The East London Port specialises in servicing the automotive industry and has a modern automotive terminal (with real time tracking and monitoring of units) that is linked directly to an adjacent automobile production plant through a private road and bridge that was commissioned by the port. There are a total of 11 commercial berths that offer container, automotive, break-bulk, bulk grain and bulk liquid (refined petroleum products) handling facilities. The East London Port is the only river-based port in the Republic of South Africa and is serviced by a national rail network system providing access to all major cities within the borders of the Republic of South Africa and neighbouring states. In addition, the East London Port also has a dry-dock for vessel repairs and maintenance.

Mossel Bay: The Port of Mossel Bay has historically been a fishing port with limited commercial cargo activity. Ship repair facilities are available to vessels of less than 280 tons and 32 meters in length. The port is unique as it provides off-shore handling facilities that enable import and export of refined products from a refinery situated close to the port. A road and rail network connects Mossel Bay to the consumer markets and industrial zones of the Republic of South Africa and other parts of southern Africa.

Ngqura: The Port of Ngqura was largely operational in October 2009 as a two berth container terminal. The construction of two additional berths to provide a total quay length of 1,310 metres was completed in March 2010. The port is a deepwater port (16.5m) capable of handling the larger new generation container vessels, such as the Super Post-Panamax container vessel. The Port of Ngqura consists of basic port infrastructure, such as breakwater, entrance channels, a sand bypass system and appropriate landside infrastructure. The port has seven berths and back-up areas: four berths for containers, two berths for multi-purpose/bulk cargo and a liquid bulk berth. The port intends to provide increased capacity for the national ports system served by a rail network linking it to the hinterland. The marine fleet consists of a pilot boat and three 75 tonne bollard pull tug boats to allow for the safe docking of vessels.

Services

Each of the Republic of South Africa's major ports serves the market of its adjacent hinterland. To a large extent, these markets determine the nature and types of cargo handled by each port. Transnet National Ports Authority's core services include:

- planning, providing, maintaining and improving port infrastructure;
- providing and coordinating marine related services;
- providing port services, including managing port activities and the port regulatory function at all South African ports; and
- providing navigation aids to assist the navigation of vessels within port limits and along the coast.

Cargo imported and exported through South African ports is categorised into containers, break-bulk, bulk (including liquid bulk and dry bulk) and automotive. The volume of each of these categories handled at the eight ports operated by the National Ports Authority is set out below for the six months ended 30 September 2013 and 2012 and for Financial Years 2013, 2012 and 2011:

	For the six months ended 30 September		For the year ended 31 March		
	2013	**2012**	**2013**	**2012**	**2011**
Volume					
Dry bulk (mt)	78.9	38.0	154.6	151.2	140.2
Liquid bulk (mt)	19.8	11.0	41.9	41.9	41.9
Break-bulk (mt)	4.6	2.0	8.9	8.6	8.7
Automotive ('000 units)	353.4	160.3	667.3	674.8	617.6
Containers ('000 TEUs)	2,422	1,102	4,403.3	4,352	4,080.8

Bulk Cargo: The bulk segment consists of dry bulk and liquid bulk. The major commodities in the dry bulk segment are coal, iron ore and manganese. In the six months ended 30 September 2013, iron ore contributed approximately 34.7 per cent. of total dry bulk volumes. In Financial Year 2013, iron ore contributed 34.66 per cent. of total dry bulk volumes. In the six months ended 30 September 2013, coal contributed approximately 45.27 per cent. of dry bulk volumes. Coal contributed approximately 47.40 per cent. of dry bulk volumes for Financial Year 2013. The chemical industry contributes the majority of volumes in the liquid bulk segment, with petrochemicals and the oil industries/sectors being the two major contributors. Transnet's ports handled 19.8 million kilolitres of liquid bulk in the six months ended 30 September 2013 and 41.9 million kilolitres of liquid bulk in Financial Year 2013.

Bulk cargo handled by the eight ports totalled 98.6 million metric tonnes in the six months ended 30 September 2013, of which the export tonnage was over three times as great as the import tonnage. The Port of Richards Bay handled 42.90 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of Saldanha handled 30.94 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of Durban accounted for 19.37 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of Cape Town accounted for 1.48 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of Port Elizabeth handled 3.73 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of Mossel Bay handled 1.12 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of East London handled 0.48 per cent. of total bulk cargo handled by the eight ports for the six months ended 30 September 2013. The Port of Ngqura did not handle any bulk cargo in the six months ended 30 September 2013.

The breakdown of bulk landed (both imported and coastwise), shipped (both exported and coastwise) and transhipped at the eight ports in the Republic of South Africa in the six months ended 30 September 2013 is set out below (coastwise means any cargo moving between two South African coastal cities):

	Richards Bay	Durban	East London	Ngqura	Port Elizabeth	Mossel Bay	Cape Town	Saldanha	Total
					(in metric tonnes)				
BULK CARGO HANDLED									
IMPORTS	2,419,251	13,715,245	86,295	—	195,422	640,279	690,960	2,611,724	20,359,176
COASTWISE	224,712	96,030	351,521	—	352,088	15,779	214,488		1,254,619
TOTAL BULK LANDED	**2,643,963**	**13,811,275**	**437,816**	**—**	**547,510**	**656,058**	**905,448**	**2,611,724**	**21,613,794**
TOTAL BULK LANDED									
EXPORTS	39,661,382	4,680,280	29,100	—	3,047,527	51,131	171,977	27,817,554	75,458,951
COASTWISE	—	574,353	4,027	—	—	392,720	381,387	82,390	1,434,877
TOTAL BULK SHIPPED	**39,661,382**	**5,254,634**	**33,127**	**—**	**3,047,527**	**443,850**	**553,364**	**27,899,944**	**76,893,828**
TRANSHIPMENT CARGO	—	34,624	—	—	80,000	—	—	—	114,624
TOTAL BULK LANDED	**42,305,345**	**19,100,533**	**470,943**	**—**	**3,675,037**	**1,099,909**	**1,458,812**	**30,511,668**	**98,622,246**
Per cent. contribution	**42.90**	**19.37**	**0.48**	**0.00**	**3.72**	**1.11**	**1.48**	**30.94**	

Bulk cargo handled by the eight ports totalled 196.5 million metric tonnes in Financial Year 2013, of which the export tonnage was over three times as great as the import tonnage. The Port of Richards Bay handled 43.86 per cent. of total bulk cargo handled by the eight ports for Financial Year 2013. The Port of Durban accounted for 19.27 per cent. of total bulk cargo handled by the eight ports for Financial Year 2013. The Port of Saldanha handled 29.99 per cent. of total bulk cargo handled by the eight ports for Financial Year 2013. The Port of Cape Town accounted for 1.91 per cent. of total bulk cargo handled by the eight ports for Financial Year 2013. The Port of Port Elizabeth handled 3.23 per cent. of total bulk cargo handled by the eight ports for Financial Year 2013. The Port of Ngqura did not handle any bulk cargo in Financial Year 2013.

The breakdown of bulk landed (both imported and coastwise), shipped (both exported and coastwise) and transhipped at the eight ports in the Republic of South Africa in Financial Year 2013 is set out below (coastwise means any cargo moving between two South African coastal cities):

	Richards Bay	Durban	East London	Ngqura	Port Elizabeth	Mossel Bay	Cape Town	Saldanha	Total
					(in metric tonnes)				
BULK CARGO HANDLED									
IMPORTS	4,883,383	28,730,434	155,495	—	354,501	1,076,748	2,082,408	4,607,533	41,890,502
COASTWISE	325,375	252,987	797,937	—	785,300	167,633	520,111	—	2,849,343
TOTAL BULK LANDED	**5,208,758**	**28,983,422**	**953,432**	**—**	**1,139,800**	**1,244,382**	**2,602,519**	**4,607,533**	**44,739,845**
SHIPPED									
EXPORTS	80,989,235	7,072,970	—	—	5,197,940	139,327	350,683	54,280,338	148,030,494
COASTWISE	—	1,575,613	5	—	—	1,099,530	791,651	44,452	3,511,251
TOTAL BULK SHIPPED	**80,989,235**	**8,648,583**	**5**	**—**	**5,197,940**	**1,238,857**	**1,142,334**	**54,324,790**	**151,541,744**
TRANSHIPMENT CARGO	—	236,017	—	—	—	—	—	—	236,017
TOTAL BULK HANDLED	**86,197,993**	**37,868,022**	**953,437**	**—**	**6,337,741**	**2,483,239**	**3,744,853**	**58,932,323**	**196,517,606**
Per cent. contribution	**43.86**	**19.27**	**0.48**		**3.23**	**1.26**	**1.91**	**29.99**	

Break-bulk Cargo: The main commodity contributors for break-bulk are steel, ferrochrome, fruit and granite. These commodities collectively represented approximately 65.88 per cent. and 68.95 per cent. of break-bulk volumes at the ports in the six months ended 30 September 2013 and Financial Year 2013, respectively.

The breakdown of break-bulk cargo landed (both imported and coastwise), shipped (both exported and coastwise) and transhipped at the eight ports in the Republic of South Africa in the six month ended 30 September 2013 is set out below:

	Richards Bay	Durban	East London	Ngqura	Port Elizabeth	Mossel Bay	Cape Town	Saldanha	Total
					(in metric tonnes)				
BREAK-BULK CARGO									
IMPORTS	34,268	1,352,688	22,477	39,743	141,379	—	81,733	123,412	1,795,699
COASTWISE	—	147	—	—	110	10,040	3,780	—	14,077
TOTAL BULK LANDED	34,268	1,352,834	22,477	39,743	141,489	10,040	85,513	123,412	1,809,775
TOTAL BULK LANDED									
EXPORTS	1,938,751	651,607	41,554	897	75,533	—	64,987	269,728	3,043,057
COASTWISE	—	24,828	—	—	—	22,387	134	—	47,349
TOTAL BREAK-BULK SHIPPED	1,938,751	676,435	41,554	897	75,533	22,387	65,121	269,728	3,090,406
TRANSHIPMENT CARGO	783	27,517	—	—	2,726	—	28,205	—	59,231
TOTAL BREAK-BULK LANDED	1,973,803	2,056,786	64,031	40,640	219,748	32,426	178,839	393,140	4,959,412
Per cent contribution	39.80	41.47	1.29	0.82	4.43	0.65	3.61	7.93	

The breakdown of break-bulk cargo landed (both imported and coastwise), shipped (both exported and coastwise) and transhipped at the eight ports in the Republic of South Africa in Financial Year 2013 is set out below:

	Richards Bay	Durban	East London	Ngqura	Port Elizabeth	Mossel Bay	Cape Town	Saldanha	Total
					(in metric tonnes)				
BREAK-BULK CARGO HANDLED									
IMPORTS	78,296	2,053,402	27,641	1,721	245,613	119	99,384	24,457	2,530,633
COASTWISE	7,628	3,000	—	—	184	4,134	4,557	251	19,754
TOTAL BREAK-BULK LANDED	**85,924**	**2,056,402**	**27,641**	**1,721**	**245,797**	**4,253**	**103,941**	**24,708**	**2,550,387**
SHIPPED									
EXPORTS	4,416,207	1,337,568	73,045	701	176,247	—	131,173	704,336	6,839,277
COASTWISE	250	47,864	—	—	8,207	26,938	75	6,827	90,161
TOTAL BREAK-BULK SHIPPED	**4,416,457**	**1,385,432**	**73,045**	**701**	**184,454**	**26,938**	**131,248**	**711,163**	**6,929,438**
TRANSHIPMENT CARGO	1,484	35,505	—	676	706	—	77,831	5,174	121,376
TOTAL BREAK-BULK HANDLED	**4,503,865**	**3,477,339**	**100,686**	**3,098**	**430,957**	**31,191**	**313,020**	**741,045**	**9,601,201**
Per cent. contribution	**46.91**	**36.22**	**1.05**	**0.03**	**4.49**	**0.32**	**3.26**	**7.72**	

Containers: Transnet National Ports Authority's ports handled a total of 2.4 million TEUs of containers for the six months ended 30 September 2013. Of this total, Durban handled 1.4 million TEUs (representing 56.51 per cent. of the total), while Cape Town handled 467,275 TEUs (representing 19.29 per cent. of the total) and Ngqura handled 376,036 (representing 15.53 per cent. of the total). The number of containers (in TEUs) landed, shipped, coastwise and transhipped for each port in the six months ended 30 September 2013 is set out below:

	RICHARDS BAY			DURBAN			EAST LONDON			NGQURA			PORT ELIZABETH			CAPETOWN			SALDANHA			TOTAL		
CONTAINERS INVOICED	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**
LANDED:																								
DEEPSEA	1,528	4,783	6,311	529,853	72,060	601,913	13,750	—	13,750	54,912	29,015	83,927	20,885	30,545	51,430	121,393	59,439	180,832	50	—	50	742,371	195,842	938,213
COASTWISE	2	504	506	1,996	2,628	4,624	—	—	—	69	289	358	1,010	284	1,294	3,100	2,427	5,527	—	—	—	6,177	6,132	12,309
TRANSHIPPED	—	—	—	58,081	23,033	81,114	—	—	—	56,126	35,951	92,077	28,902	13,387	42,289	33,110	12,492	45,602	52	—	52	176,271	84,863	261,134
TOTAL LANDED	**1,530**	**5,287**	**6,817**	**589,930**	**97,721**	**687,651**	**13,750**	**—**	**13,750**	**111,107**	**65,255**	**176,362**	**50,797**	**44,216**	**95,013**	**157,603**	**74,358**	**231,961**	**102**	**—**	**102**	**924,819**	**286,837**	**1,211,656**
SHIPPED:																								
DEEPSEA	7,550	107	7,657	370,894	212,103	582,997	645	11,869	12,514	50,177	47,929	98,106	26,293	5,821	32,114	131,855	57,156	189,011	—	—	—	587,414	334,985	922,399
COASTWISE	—	—	—	6,003	4,750	10,753	—	—	—	9	657	666	62	93	155	1,097	460	1,557	—	—	—	7,171	5,960	13,131
TRANSHIPPED	—	—	—	64,851	22,276	87,127	—	—	—	56,129	44,773	100,902	29,949	12,024	41,973	31,233	13,513	44,746	—	—	—	182,162	92,586	274,748
TOTAL SHIPPED	**7,550**	**107**	**7,657**	**441,748**	**239,129**	**680,877**	**645**	**11,869**	**12,514**	**106,315**	**93,359**	**199,674**	**56,304**	**17,938**	**74,242**	**164,185**	**71,129**	**235,314**	**—**	**—**	**—**	**776,747**	**433,531**	**1,210,278**
GRAND TOTAL	**9,080**	**5,394**	**14,474**	**1,031,678**	**336,850**	**1,368,528**	**14,395**	**11,869**	**26,264**	**217,422**	**158,614**	**376,036**	**107,101**	**62,154**	**169,255**	**321,788**	**145,487**	**467,275**	**102**	**—**	**102**	**1,701,566**	**720,368**	**2,421,934**
Per cent. Contribution			**0.60**			**56.51**			**1.08**			**15.53**			**6.99**			**19.29**			**0.00**			
Per cent. Contribution per Transhipment			**—**			**31.40**			**—**			**36.01**			**15.72**			**16.86**			**0.01**			

Transnet National Ports Authority's ports handled a total of 4.4 million TEUs of containers for Financial Year 2013. Of this total, Durban handled 2.5 million TEUs (representing 57.44 per cent. of the total.), while Cape Town handled 870,851 TEUs (representing 19.78 per cent. of the total.) and Ngqura handled 671,191 (representing 15.24 per cent. of the total). The number of containers (in TEUs) landed, shipped, coastwise and transhipped for each port in Financial Year 2013 is set out below:

	RCB			DBN			ELS			NGQ			PLZ			CPT			SLD			TOTAL		
Containers Invoiced	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**	**FULL**	**EMPTY**	**TOTAL**
BREAK-BULK CARGO HANDLED																								
DEEPSEA	2,828	6,680	9,508	1,042,641	89,927	1,132,568	26,351	1	26,252	92,285	38,060	130,345	37,311	28,364	65,675	219,355	124,532	343,887	8	0	8	1,420,679	287,564	1,708,243
COASTWISE	288	126	414	2,693	3,396	6,089	0	0	0	60	438	498	771	274	1,045	7,177	15,434	22,611	0	0	0	10,989	19,668	30,657
TRANSHIPPED	22	0	22	121,955	22,942	144,897	0	0	0	167,837	44,703	212,540	60,225	12,500	72,725	55,176	19,452	74,628	0	0	0	405,215	99,597	504,812
TOTAL LANDED	**3,1,38**	**6,806**	**9,944**	**1,167,289**	**116,265**	**1,283,554**	**26,251**	**1**	**26,252**	**260,182**	**83,201**	**343,383**	**98,307**	**41,136**	**139,445**	**281,708**	**159,418**	**441,126**	**8**	**0**	**8**	**1,836,883**	**406,829**	**2,243,712**
DEEPSEA	10,597	269	10,866	630,370	450,235	1,080,605	1,171	24,476	25,647	64,903	55,849	120,752	31,056	14,610	45,666	240,200	104,322	344,522	129	0	129	978,426	649,761	1,628,187
COASTWISE	2	6	8	11,246	9,507	20,753	0	46	46	15	347	362	130	352	482	441	4,773	5,214	0	0	0	11,824	15,031	26,865
TRANSHIPPED	21	1	22	121,953	22,540	144,493	0	0	0	162,655	44,039	206,694	59,297	14,099	73,396	60,445	19,544	79,989	0	0	0	404,371	100,223	504,594
TOTAL SHIPPED	**10,620**	**276**	**10,896**	**763,569**	**482,282**	**1,245,851**	**1,171**	**24,522**	**25,693**	**227,573**	**190,235**	**327,808**	**90,483**	**29,061**	**119,544**	**301,084**	**128,439**	**429,725**	**129**	**0**	**129**	**1,394,431**	**765,015**	**2,159,646**
GRAND TOTAL	**13,758**	**7,082**	**20,840**	**1,930,858**	**598,547**	**2,529,405**	**27,422**	**24,523**	**51,945**	**487,755**	**183,436**	**671,191**	**188,790**	**70,199**	**258,989**	**582,794**	**288,057**	**870,851**	**137**	**0**	**137**	**3,231,514**	**1,171,844**	**4,403,358**
Per cent. Contribution			**0.48**			**57.44**			**1.18**			**15.24**			**5.88**			**19.78**			**0.00**			
Per cent. Contribution per Transhipment			**0.00**			**28.67**			**0.00**			**41.53**			**14.48**			**15.32**			**0.00**			

Customers

Transnet National Ports Authority's customers include terminal operators, shipping lines, ship agents, cargo owners and the clearing and forwarding industry. No single customer contributed more than 20 per cent. of the division's segment external revenue in either the six months ended 30 September 2013 or Financial Year 2013. Transnet National Ports Authority's largest external customers are Bidvest Group (Pty) Limited and Grindrod Limited which accounted for approximately 8 per cent. and 7 per cent. of Transnet National Ports Authority's segment external revenue in Financial Year 2013, respectively.

Source of Revenue, Pricing and Tariffs

Overview

Transnet National Ports Authority earns the majority of its revenue by charging tariffs for the provision of three basic services: marine services, provision and maintenance of port infrastructure and leasing of port land to terminal operators. Marine services include the provision of pilot services to bring vessels into port (basic fee plus an amount per 100 tonnes or part thereof gross tonnage ("**GT**")), tug services to vessels in the port (per service based on vessel GT plus an amount per 100 tonnes or part thereof) and berthing services to vessels tying-up alongside the berth in port (basic fee per service plus an amount per 100 tonnes or part thereof). The provision and maintenance of port infrastructure, port terminals and port facilities generates revenues through port dues (basic fee per 100 tonnes or part thereof plus per 100 tonnes or part thereof per 24 hour period) for the provision and maintenance of entrance channels, breakwaters, basins, navigational aids and maintenance dredging inside port limits, cargo dues for the provision and maintenance of port infrastructure and berth dues for vessel occupying quays or repair quays while not engaging in the loading or unloading of cargo. In addition, Transnet National Ports Authority generates revenue by leasing port land to terminal operators for a rental fee. Finally, Transnet National Ports Authority also generates revenue through vessel traffic service charges (per vessel GT per port call) and light dues for the provision of navigational aids alongside the coast of the Republic of South Africa and within ports (per 100 tonnes GT or part thereof).

Sections 30 and 72 of the Ports Act require that Transnet National Ports Authority submit annual tariff proposals to the Ports Regulator for approval and that, prior to any substantial alteration of a tariff, Transnet National Ports Authority consult with the National Ports Consultative Committee, created by section 82 of the Ports Act. While the members of the Ports Regulator were appointed by the Minister of Transport in calendar year 2006, the office of the chief executive officer of the Ports Regulator became operational only in calendar year 2008. Transnet National Ports Authority submitted its first tariff application for Financial Year 2009 for approval to the Ports Regulator on 1 August 2008. As the Port Regulator's directives were not in place at that time, Transnet did not receive a response from the Ports Regulator. Transnet National Ports Authority accordingly adjusted its tariffs, in the normal course of business, for Financial Year 2009.

On 6 August 2009, the Ports Regulator issued Port Directives (the "**Port Directives**") under the Ports Act. The Port Directives contained provisions capping Transnet National Port Authority's tariffs at "CPIX-X", where "CPIX" is the consumer price index for all urban areas in the Republic of South Africa and "X" is an efficiency factor determined by the Ports Regulator after consulting Transnet National Ports Authority, other Government stakeholders and those port users that the Port Regulator deems necessary. The Port Directives also indicated that the Ports Regulator would perform a tariff level rebasing every five years to set the baseline tariff structure to assess Transnet National Ports Authority's tariff applications. The Port Directives further gave the Port Regulator discretion as to whether it is desirable that the tariffs which it approves enable Transnet National Ports Authority to recover its investments and costs and to make a profit commensurate with the risk of owning, managing, controlling and administering ports and providing port services and facilities. Transnet subsequently obtained legal advice from a South African law firm that these and other aspects of the Port Directives were unlawful. Transnet advised the Government of this legal advice. On 20 October 2009, the Ports Regulator agreed to withdraw or amend the relevant Port Directives, including the cap on tariffs, rebasing and other discretionary provisions. These amendments to the Port Directives were published by the Minister of Transport on 29 January 2010.

Tariffs

For Financial Year 2011, Transnet National Ports Authority submitted its tariff application to the Ports Regulator proposing a 10.26 per cent. increase in tariffs per annum over three years, or a one-off 19.13 per cent. increase in comparison to Financial Year 2010. The Ports Regulator approved a 4.42 per cent. increase in Transnet National Ports Authority's tariffs for Financial Year 2011.

For Financial Year 2012, Transnet National Ports Authority submitted its tariff application to the Ports Regulator requesting an 11.91 per cent. increase in tariffs in comparison to Financial Year 2011. The Ports Regulator approved a tariff increase of 4.49 per cent. for Financial Year 2012.

For Financial Year 2013, Transnet National Ports Authority submitted its tariff application to the Ports Regulator requesting a 18.06 per cent. increase in tariffs in comparison to Financial Year 2012. The Ports Regulator approved a tariff increase of 2.76 per cent. for Financial Year 2013.

In the absence of an agreed tariff methodology, Transnet National Ports Authority submitted its revised Financial Year 2014 tariff application to the Ports Regulator requesting an increase of 5.4 per cent. in tariffs in comparison to Financial Year 2013. Transnet further proposed a multi-year tariff application process with a constant tariff increase of 8.5 per cent. per annum. The Ports Regulator, after considering the application and all submissions submitted in this regard by all interested parties, declined the proposed 5.4 per cent. tariff increase and the additional multi-year tariff increases.

The Ports Regulator concluded that the appropriate tariff book adjustments for Financial Year 2014 were to be set as follows:

- Cargo dues tariffs:
  - (i) reduced by 43.2 per cent. for full containers exported;
  - (ii) reduced by 14.3 per cent. for full containers imported; and
  - (iii) reduced by 21.1 per cent. for motor vehicles exported on own wheels.
- All other tariffs are to remain at Financial Year 2013's level.

As a result of these tariff changes, Transnet National Ports Authority will request tariff increases in cargo dues for dry bulk, liquid bulk and break bulk. Increases in tariffs of certain cargo types are subject to Transnet National Ports Authority's proposed tariff methodology, which is still waiting approval from the Ports Regulator. Transnet National Ports Authority has submitted its Financial Year 2015 tariff application requesting a 14.4 per cent. increase in its tariffs.

Regulation

Transnet National Ports Authority is regulated by various port and maritime legislation, including the Ports Act. The Ports Act was signed into law by the President on 31 July 2005 and thereafter published in the Government Gazette on 4 August 2005. It became effective on 26 November 2006. The Ports Act gives legal effect to the Government's white paper on national commercial ports policy that outlines the roles of ports in a growing South African economy.

The Ports Act defines the legislative and regulatory environment relevant to ports. The main function of Transnet National Ports Authority is "to own, manage, control and administer ports to ensure their efficient and economic functioning". In fulfilling its function, Transnet National Ports Authority must, amongst others:

- plan, provide, maintain and improve port infrastructure;
- provide or arrange marine-related services;
- ensure the provision of port services, including the management of port activities and the port regulatory function at all South African ports; and
- provide navigation aids to assist the navigation of vessels within port limits and along the coast.

Apart from setting out the functions of Transnet National Ports Authority, the Ports Act authorises Transnet National Ports Authority to enter into agreements with persons, authorising such persons to design, construct, rehabilitate, develop, finance, maintain or operate a port terminal or port facility in the Republic of South Africa. Transnet National Ports Authority is then required to monitor and review the performance of that person in accordance with the agreement.

Furthermore, Section 29 of the Ports Act establishes an independent ports regulatory body known as the Ports Regulator. The main functions of the Ports Regulator are to:

- exercise economic regulation of the ports system in line with the Government's strategic objectives, which includes the annual approval of National Ports Authority's tariffs;

- promote equity of access to ports and to facilities and services provided in ports; and
- monitor the activities of the National Ports Authority to ensure that it performs its functions in accordance with the Act.

The Ports Act creates a dual role for Transnet National Ports Authority. As the manager, controller and administrator of ports, Transnet National Ports Authority must, amongst other things, control port services through licensing or entering into agreements with operators, and as a regulated entity, it must have its tariffs approved by the Ports Regulator and may have its decisions overturned by the Ports Regulator.

The Ports Act has had a significant impact on Transnet National Ports Authority. In its preparation to comply with the provisions of the Act, Transnet National Ports Authority has:

- drafted and issued port roles, which have been approved by the Minister of Transport. These port rules aim to ensure proper control and management of ports, the regulation and control of navigation with the approaches to ports and the maintenance of safety, security and good order in ports as well as the protection of the environment;
- prepared guidelines, approved as Transnet policy, for the issuing of agreements, licences and permits;
- submitted its tariff application to the Ports Regulator for Financial Year 2014; and
- commenced the provision of a framework for conversion of deemed licences to deal with the transitional arrangement for existing port service providers (i.e. parties that provided port services on or before 26 November 2006 are deemed to hold licences to provide such services and must apply to Transnet National Ports Authority for new licences within six months of a date to be set by the Minister of Public Enterprises).

Although provision for the establishment of a ports regulator was made at the inception of the Ports Act in 2006, the Ports Regulator only became operational in 2008, and for this reason the impact of regulation on Transnet National Ports Authority's operations and finances has yet to be assessed. However, from an operational perspective, the port rules, approved at ministerial level, provides each harbour master with a recognised framework for decision-making, compliance and control.

New security measures that affect Transnet National Ports Authority's business include the International Ship and Port Facility Security Code ("**ISPS Code**"), which was implemented in 2004, and, to the extent that Transnet's terminals handle cargo destined for the United States, the global security initiatives emanating from the U.S. Safe Ports Act of 2006, specifically the Container Security Initiative and the Secure Freight Initiative.

Assets

Transnet National Ports Authority owns all port land, port infrastructure (such as breakwaters, seawalls and jetties), marine fleet and equipment utilised to serve vessels calling at its ports. The ICM, as originally drafted and ratified, contained certain sections that would have required Transnet to transfer ownership of all assets located in the coastal property zone to the Government. Before the ICM came into operation on 1 December 2009, the Government excluded these provisions, specifically, sections 11, 65, 66, 95, 96 and 98, from coming into operation in order to resolve the uncertainty created by the ICM with Transnet.

Section 11 of the ICM provides for the ownership of coastal public property to vest in the citizens of the Republic of South Africa and to be held in trust by the Government on their behalf. It further prohibits the sale, alienation and transfer of coastal public property. Sections 65 and 66 of the ICM prevent, among other things, persons from occupying any part of, constructing, or erecting any building, road, barrier or structure on or in coastal public property without being awarded a lease by the Minister of Environmental Affairs and Tourism. Section 96 of the ICM provides for the demolition of any structure constructed unlawfully on coastal public property prior to the implementation of the Act. Finally, Section 98 of the ICM provides for the repeal of certain legislation that currently governs the use of coastal property, including the Sea Shore Act, 1935, which legislation now continues in effect in parallel with the remaining provisions of the ICM.

Subsequent discussions between Transnet and the Government, including most recently the Parliamentary Portfolio Committee, have resulted in amendments to the Draft ICM Amendment Bill, which Transnet believes will protect the Company's ownership of port infrastructure. See "*Risk Factors—Risks Related to Transnet's Business—Transnet risks losing substantial assets to nationalisation by the Government should the National Environmental Management: Integrated Coastal Management Act, 2008 be enacted, in its current form*".

Transnet Port Terminals

Transnet Port Terminals was established in 2000 when Transnet's then existing port division, Portnet, was divided into operations and landlord businesses, namely what is now Transnet Port Terminals and Transnet National Ports Authority, respectively. Since its inception, Transnet Port Terminals has played a key role in supporting the South African government's export-led growth strategy. In the six months ended 30 September 2013, Transnet Port Terminals contributed 15.41 per cent. to the Group's total external revenue. Transnet Port Terminals contributed 15.37 per cent. and 14.78 per cent. to the Group's total external revenue in Financial Year 2012 and Financial Year 2013, respectively.

Transnet Port Terminals' total segment revenue increased by 16.68 per cent from R3,760 million in the six months ended 30 September 2012 to R4,387 million in the six months ended 30 September 2013, due to a combination of higher tariffs negotiated as well as higher volumes handled across all sectors, excluding automotive. Bulk volumes increased by 4.1 per cent due to increased demand and new business opportunities in Richards Bay. Container volumes increased by 9.42 per cent from 2,174,451 TEUs in the six months ended 30 September 2012 to 2,379,247 TEUs in the six months ended 30 September 2013 as a result of transshipments secured with major customers. Automotive volumes decreased by 3.24 per cent from 334,165 units in the six months ended 30 September 2012 to 323,354 in the six months ended 30 September 2013 due to the adverse impact of the strike in the sector.

Transnet Port Terminals' revenue increased by 5.22 per cent. from Financial Year 2012 to Financial Year 2013. The increase in revenue for Financial Year 2013 was assisted by improved commercial agreements (in light of recent capacity expansion in iron ore and manganese lines), though volume growth was limited due to the economic recession.

South African import and export commodities are handled through the Republic of South Africa's seven largest ports: Richards Bay, Durban, Saldanha, Cape Town, Ngqura, Port Elizabeth and East London. The division not only handles these cargoes but also implements logistics management solutions for its container, bulk, break-bulk (multi-purpose) and car terminal operations.

Strategy

Transnet Port Terminals' strategic aims under the MDS include:

- enabling growth in line with the National Development Plan with particular emphasis on capacity expansion;
- creating world-class operations through continuously improving operational efficiencies;
- expanding investments in infrastructure and equipment to facilitate growth;
- supporting small supplier businesses;
- enhancing the skills and expertise of employees;
- increasing Transnet Port Terminals' global footprint by increasing the number of terminals the division operates outside of South Africa and offering port operational, technical and systems advice worldwide;
- improving logistics for existing and new markets;
- increasing regional integration between the Republic of South Africa's and southern Africa's interconnectivity between ports and rail;
- developing and executing the division's maintenance strategy to ensure equipment reliability;
- refining performance management systems; and
- improving operating efficiency, productivity and reliability.

Services

Transnet Port Terminals provides a range of cargo-handling and storage services to a wide variety of customers, including shipping lines, freight forwarders and cargo owners in the container, bulk, break-bulk and automotive cargo sectors. It provides these services at the sixteen cargo terminals it operates across seven of the eight South African ports.

Bulk Terminals: Transnet Port Terminals has five bulk terminals located at Richards Bay, Saldanha, Durban, East London and Port Elizabeth that handle a variety of commodities including iron ore, manganese, magnetite, woodchips, anthracite, steam coal and agri-bulk products such as soya and maize. The Saldanha Iron Ore Terminal is the country's only iron ore terminal and has the largest iron ore export facility in Africa as measured by volume passing through the terminal. Between Financial Year 2007 and Financial Year 2013, expansions to the Saldanha Iron Ore Terminal increased the terminal's iron ore export offloading capacity from 31 million tonnes a year in Financial Year 2007 to 60 million tonnes per year in Financial Year 2013. Expansion work to increase the terminal's export capacity from 60 million tonnes per year to 83 million tonnes per year in Financial Year 2019 has begun. The Richards Bay Dry Bulk terminal handles a variety of commodities such as magnetite, anthracite and steam coal through its conveyor system.

Break-Bulk Terminals: Transnet Port Terminal's break-bulk or multi-purpose terminals are located in Cape Town, Durban, East London, Port Elizabeth, Richards Bay and Saldanha. Cargoes at those terminals range from fresh produce, grains and animal feed, to woodchip, metals and coal.

Automotive Terminals: Transnet Port Terminals operates automotive terminals at the Ports of Durban, Port Elizabeth and East London, which were involved in the export and import of 674,231 vehicles in Financial Year 2013. See also "*—Transnet National Ports Authority—Services—Break-Bulk Cargo and Automotive*". The Durban Automotive Terminal handles approximately two-thirds of all the seaborne vehicles leaving or entering the Republic of South Africa.

Container Terminals: Transnet Port Terminals includes five container terminals, with two in Durban, and one in each of Cape Town, Port Elizabeth and Ngqura. The Port of Ngqura became operational in October 2009. Ngqura's container terminal is a well-located hub for traffic from the west of the Northern hemisphere and to South America and the Far East. Durban, Africa's busiest port as measured by capacity and throughput has Africa's largest container terminal as measured by volume passing through. The Cape Town Container Terminal currently has a capacity of 950,000 TEUs per year and Transnet plans to expand it to 1.4 million TEUs by 2018. The container-handling facility at Port Elizabeth is capable of handling approximately 400,000 TEUs a year and specialises in cargoes for the vehicle manufacturing and vehicle components industries. See also "*—Transnet National Ports Authority—Services—Containers*".

Customers

Transnet Port Terminals' major customers represent a broad spectrum of the economy and include the shipping industry, vehicle manufacturers, the agriculture, timber and forest industries, the mining industry and exporters of minerals, metals and granite. Transnet Port Terminals' major customers are Maersk and Mediterranean Shipping Company, which accounted for 13.59 per cent. and 19.10 per cent. of Transnet Port Terminals' segment total revenue for the six months ended 30 September 2013, respectively, and 14.47 per cent. and 17.61 per cent. of Transnet Port Terminals' segment total revenue for the year ended 31 March 2013, respectively.

Source of Revenue, Pricing and Tariffs

Transnet Port Terminals earns revenues through the levying of charges for loading, offloading and other cargo handling charges as well as for the storage of cargo.

Assets

Transnet Port Terminals operates each of its terminals, and owns all the port handling equipment, including cranes used in the loading/unloading of cargo to/from the ships to the stacking areas, excluding those assets that have been used as security for borrowing held by Transnet.

Regulation

The Ports Act promulgates the parameters within which terminals operate. Transnet Port Terminals has developed a Compliance Risk Management Plan and Minimum Control Framework, which has been rolled out across the business and aids as a control to ensure compliance to the Ports Act.

Pursuant to the Transnet National Ports Authority's general notice issued on 2 December 2011, inviting all terminal operators who managed or operated a terminal prior to 26 November 2006, to apply for a terminal operator licence within six months from 1 December 2011, Port Terminals has applied for 19 terminal operator licences and has been issued with all its terminal operator licences with effect as from 1 July 2012, except for the Ngqura Container Terminal (the "**NCT**"). A Container Terminal Operator Licence has been granted for NCT as per Section 57 of the Ports Act, pursuant to the Minister of Transport issuing a Section 79 directive. Transnet Port Terminals is to operate the Port of Ngqura for a limited period of three years, with effect from 3 October 2012 subject to Transnet National Ports Authority beginning a competitive process for the licensing of the Port of Ngqura in accordance with Section 56 of the Ports Act. Transnet Port Terminals plans to make bids to operate the NCT as a transshipment hub within Transnet Port Terminals' and to operate the manganese terminal in the Port of Ngqura.

Compliance with environmental legislation is closely monitored through the implementation of an environmental management framework aligned and certified to the ISO 14001 standard. Together with the environmental control framework that is implemented, environmental compliance is monitored through rigorous internal audits as well as the ISO 14001 system audits.

Transnet Pipelines

Transnet Pipelines owns and operates the Republic of South Africa's 3,800 kilometres of strategic petroleum and gas pipeline infrastructure, traversing five provinces: KwaZulu-Natal, Free State, Gauteng, North West and Mpumalanga. Transnet Pipelines contributes significantly to the South African economy and fulfils a strategic role in the fuel logistic chain in meeting security of supply requirements to the inland market, especially to Gauteng, the Republic of South Africa's economic heartland.

Transnet Pipelines is regulated by NERSA and is governed by the Petroleum Pipelines Act and the Gas Act, No 48 of 2001 (the "**Gas Act**"). NERSA sets or approves tariffs and governs the licensing of operation and construction of pipeline networks as well as storage and loading facilities.

In the six months ended 30 September 2013, the total volumes transported were 8.3 billion litres compared to 8.5 billion litres for the six months ended 30 September 2012. Transnet Pipelines transported 238 million cubic meters of gas in the six months ended 30 September 2013 compared to 237 million cubic meters in the six months ended 30 September 2012, mainly due to increases in throughput at Newcastle and Durban South.

Revenue increased by 16.13 per cent. in the six months ended 30 September 2013 compared to the six months ended 30 September 2012 mainly due to the 8.53 per cent. increase in allowable revenue granted by NERSA partially offset by a 2.5 per cent. decrease in volumes transported during the period. Although revenue increased by 34.97 per cent. in Financial Year 2013 compared to Financial Year 2012, volume growth did not materialise, mainly due to demand decline and supply challenges. The total volumes transported were 15.9 billion litres in Financial Year 2013 compared to a target of 18 billion litres. Transnet Pipelines transported 472 million cubic meters of gas in Financial Year 2013 compared to a target of 492 million cubic meters. The decline was mainly due to a downturn in the economy which affected the demand for gas.

Strategy

On 20 December 2007, Transnet was granted a construction licence pursuant to Section 16 of the Petroleum Pipelines Act to augment and replace parts of Transnet's existing petroleum pipeline network with the NMPP, which was initiated in response to the Government's request to increase pipeline capacity in an effort to secure fuel supply in the central region of the Republic of South Africa. The pipeline components of the NMPP have been in operation since Financial Year 2012. The full potential of the NMPP trunkline will only be realised when the coastal and inland terminals are brought into operation. Transnet will continue to use the Durban to Johannesburg Pipeline (the "**DJP**") in conjunction with the NMPP until the end of Financial Year 2015 to ensure sufficient pipeline capacity in order to keep the inland market adequately supplied. This service will be enhanced to provide an efficient end-to-end logistics service to the oil industry of South and Southern Africa.

Transnet Pipelines' additional objectives include:

- developing the technical and operational skills of Southern African pipeline companies by providing consultancy services and training to ensure growth and economic sustainability;
- continuing to introduce new technology and operating procedures to address the operational efficiency of the pipeline;
- enhancing safety, as well as sustainability, while minimising risk; and
- contributing to the development of core skills for the pipeline and the petrochemical industry through the Transnet Academy.

Services

Transnet Pipelines currently transports refined petroleum products (petrol and diesel), crude oil, aviation turbine fuel ("**Avtur**") and methane rich gas. A storage and distribution facility at Tarlton is used for cross-border refined petroleum products for distribution to Botswana.

The table below sets out key statistics for Transnet Pipelines for the six months ended 30 September 2013 and 2012 and for Financial Years 2013, 2012 and 2011:

Key Statistics

	For the six months ended 30 September		For the year ended 31 March		
	2013	2012	2013	2012	2011
Infrastructure					
Capital expenditure *(R millions)*	1,847	1,256	2,799	4,507	6,077
Efficiency					
Operating cost per Ml.km (Nominal *R/Ml.km*)	92.0	81.0	88.9	n/a	n/a
Volume					
Total petroleum volumes (*billion litres km*)	3,687	3,685	7,174	7,002	7,463
Total petroleum volumes (*billion litres*)	8,269	8,482	15,882	16,741	18,025
Total gas volumes (*million* m^3)	238	237	472	494	470

Customers

Transnet Pipelines' customers include the Republic of South Africa's largest fuel companies, such as British Petroleum, PetroSA, Chevron, Engen, Sasol Oil, Sasol Gas, Shell and Total. These customers together accounted for 98 per cent. of Transnet Pipelines' segment external revenues for the six months ended 30 September 2013 and Financial Year 2013.

In addition to these major clients, Transnet Pipelines helps facilitate new entrants into the pipeline network, including Afric Oil and Khulaco.

Sources of Revenue and Pricing

Overview

In accordance with the Petroleum Pipelines Act, NERSA is mandated to set petroleum pipeline tariffs and approve storage tariffs. Pursuant to the Gas Act, Transnet must also submit its gas transmission tariffs to NERSA, in order for NERSA to "monitor and approve, and if necessary, regulate" Transnet's tariffs. NERSA issues separate licences for construction, conversion and operation of petroleum infrastructure. Therefore, Transnet must, from time to time, submit applications to NERSA to amend Transnet's petroleum pipeline operating and construction licences in order to reflect changes to the operation and construction of the pipeline system. See also "*Risk Factors—Risks Related to Transnet's Business—Transnet is exposed to risks associated with the economic regulation of its business—Transnet Pipelines*".

Tariffs

Petroleum Tariffs

For its Financial Year 2012 petroleum tariff application, Transnet Pipelines applied for an allowable revenue increase of 69 per cent. plus an allowance to maintain Transnet's cash interest cover ratio at three times. The total requested allowable revenue increase was approximately 127 per cent. compared to the tariff in Financial Year 2011. NERSA approved an allowable revenue increase of 59.99 per cent. for Financial Year 2012.

For its Financial Year 2013 petroleum tariff application, Transnet Pipelines applied for an allowable revenue increase of 83.3 per cent., including an allowance to maintain Transnet's cash interest cover ratio at three times, in comparison to Financial Year 2012. NERSA approved an allowable revenue increase of 31.58 per cent. for Financial Year 2013.

For its Financial Year 2014 petroleum tariff application, Transnet Pipelines applied for an allowable revenue increase of 22.58 per cent. in comparison to Financial Year 2013. NERSA approved an allowable revenue increase of 8.53 per cent. for Financial Year 2014.

NERSA ruled that Transnet's costs related to capital projects (made up of non-project related costs and overheads such as executive, support and IT costs), which were included in Transnet Pipeline's overheads as part of the tariff application for Financial Year 2014, should be capitalised. Transnet therefore sees the capital costs in the final tariff determination not as a disallowance of revenue, but a deferment of revenue over the life of the regulatory assets.

On 1 August 2013, Transnet Pipelines submitted its Financial Year 2015 tariff application. The tariff application was guided by NERSA's approved tariff methodology. Transnet has filed for a revenue requirement of R3,351.48 million for the Financial Year 2015 tariff period, a 19.88 per cent. increase in revenue from the Financial Year 2014 allowable revenue of R2,795.61 million as set by NERSA.

Gas Tariffs

On 21 December 2012, Transnet submitted its Gas Multi-Year Application to NERSA, requesting an allowable revenue requirement of R155.3 million for Financial Year 2014, R162.4 million for Financial Year 2015, and R170.5 million for Financial Year 2016. The preliminary assessment of the multi-year application was received from NERSA on 11 March 2013. On a preliminary basis, NERSA approved an allowable revenue of R161.53 million, R169.03 million and R177.23 million for Financial Years 2014, 2015 and 2016, respectively. Before final approval of the allowable revenue amounts can be granted, NERSA is obliged to hold a public hearing on Transnet Pipelines' revenue requirement, which it did on 17 April 2013.

On 28 May 2013, NERSA approved the following tariffs as applied for in the application:

- R9.77 per gigajoule for the period 1 April 2013 to 31 March 2014;
- R8.55 per gigajoule for the period 1 April 2014 to 31 March 2015; and
- R8.98 per gigajoule for the tariff period 1 April 2015 to 31 March 2016.

Tarlton Storage Tariffs

Transnet Pipelines submitted its multi-year allowable revenue application for its storage facility at Tarlton to NERSA on 1 August 2012 for Financial Years 2014, 2015 and 2016, requesting an allowable revenue of R123 million, R138.2 million and R155.9 million, respectively.

On 3 June 2013, NERSA approved the following tariffs as applied for in the tariff application:

- 13.45 cents per litre for the period 1 April 2013 to 31 March 2014;
- 13.88 cents per litre for the period 1 April 2014 to 31 March 2015; and
- 14.54 cents per litre for the tariff period 1 April 2015 to 31 March 2016.

Assets

Transnet Pipelines currently owns approximately 3,800 kilometres of high pressure pipeline network with associated infrastructure and property. Transnet Pipelines' network comprises a system of the refined product network, crude oil, avtur and gas pipelines. The petroleum network has five intake points, as well as 15 delivery stations and the gas network has eight metering stations

The Transnet Pipelines infrastructure includes the tank farm at Tarlton with storage and distribution facilities that have an operating capacity of approximately 30 million litres. This facility is mainly used for cross-border deliveries into Botswana. The Tarlton facility also includes a refractionator which is used to process intermixture to optimise operations.

Certain infrastructure that is presently under construction as part of the NMPP project includes:

- TM1, a coastal accumulation terminal in Durban (Island View); and
- TM2, an inland accumulation terminal in Jameson Park.

NMPP

The NMPP is a strategic investment to secure the supply of petroleum products to the inland market over the long term. It is one of the largest and most complex multi-product pipelines in the world. An innovative engineering project in concept, design and implementation, the 555 kilometres of 24 inch pipeline (mainline) and 160 kilometres of 16 inch pipelines pipeline of the of the NMPP system of assets are buried underground.

Some of the benefits of the NMPP include (when fully operational) an increase in pipeline capacity from the current 4.4 billion litres to 8.4 billion litres resulting in a significant reduction in the number of tankers on the road, and a cost-effective and efficient mode of moving petroleum products in an environmentally friendly manner. The 24-inch trunk-line from Durban to Jameson Park commenced operations in January 2012 and transported over 2.7 billion litres of diesel in Financial Year 2013. See "*—Transnet Pipelines—Strategy*" for further information.

Capital Expenditure Programme

Introduction

Transnet's current Capital Expenditure Programme provides for Transnet's continuing operations to invest R307.5 billion over the next seven Financial Years (excluding capitalised borrowing costs of R10.54 billion and Optimisation) on key corridors and sectors. Transnet currently estimates that of the R307.5 billion, R121.5 billion will be invested in the next three Financial Years beginning in Financial Year 2014 (excluding capitalised borrowing costs). Transnet currently estimates that of the total seven-year R307.5 billion Capital Expenditure Programme, R188.5 billion will be spent on expanding capacity and R119.0 billion will be spent on sustaining existing infrastructure and equipment.

The Capital Expenditure Programme is reviewed and updated annually by the Board of Directors and as such, is subject to change. This flexibility enables the Group to respond appropriately to developments in its business and the South African economy more generally. The Group's spending under the Capital Expenditure Programme for the six months ended 30 September 2013 (excluding capitalised borrowing costs) amounted to R11.2 billion against the approved budget of R13.1 billion, representing an under-spend of 14 per cent., as compared with R12.8 billion for the six months ended 30 September 2012. For the six months ended 30 September 2013 R6.2 billion was spent to maintain current infrastructure and equipment and R5 billion was spent on expanding capacity. The Group's spending under the Capital Expenditure Programme for Financial Year 2013 (excluding capitalised borrowing costs) amounted to R27.5 billion, with R16.2 billion spent to maintain current infrastructure and equipment and R11.3 billion spent on expanding capacity.

Transnet is now in the second year of the MDS, which aims to create capacity ahead of demand through accelerating investment and improving reliability and operational efficiencies. Transnet has taken a decision to continue investing in capital through the current uncertain economic cycles and has accordingly maintained its capital programme. Transnet is focused on long term infrastructure and its assets are likely be used through numerous economic cycles. This will provide a firm impetus for stimulating current and future economic growth. In addition, Transnet believes it should be in a position to capture additional market share and volume growth as the economic situation improves.

Pursuant to the MDS, Transnet expects to invest approximately R307.5 billion over the next seven Financial Years in rail, port and pipeline infrastructure, in addition to the R27.5 billion already invested in Financial Year 2013 (excluding capitalised borrowing costs). This represents a slight increase from the previous seven-year, R300.1 billion, capital expenditure programme. This investment is intended to create the required capacity on both the rail and port network to de-bottleneck the logistics network and address the market demand. Over the entire course of the seven-year Capital Expenditure Programme, Transnet intends to borrow approximately R67.9 billion to fund the required R307.5 billion.

The following key programmes have been identified as forming part of the MDS:

(i) expansion of the iron ore export channel from 60 million tons to 82.5 million tons per annum;

(ii) various improvements to the Durban-Gauteng Rail corridor and the phased development of a new 16 million tons per annum manganese export channel through the Port of Ngqura;

(iii) expansion of the export coal line to 81 million tons per annum and subsequently to 97.5 million tons per annum; and

(iv) increases in Eskom's coal freight tonnage from 7.3 million tons to 27.5 million tons per annum as part of Transnet Freight Rail's strategy to achieve road to rail migration.

Of the R11.2 billion spent under the Capital Expenditure Programme for the six months ended 30 September 2013, approximately 65 per cent. was spent on Transnet Freight Rail, 10 per cent. was spent on Transnet National Ports Authority and Transnet Port Terminals, 16 per cent. was spent on Transnet Pipelines and nine per cent. was spent on Transnet Engineering and other projects.

Capital Planning and Execution

The proposal for a specific capital project may arise for a number of reasons which include business needs, safety requirements, client requests, revenue opportunities identified through market research, the necessity to refurbish a facility and equipment that has reached the end of its useful life and investments that are considered of strategic importance to Transnet and/or the national economy. Transnet's operating divisions are expected to identify opportunities and present their proposals to the relevant governing structures to obtain approval to commence the capital project. The policies and procedures for expansionary projects require that:

- the cash flows be discounted to determine an internal rate of return and a net present value;
- the internal rate of return is then compared to the "hurdle rate" and weighted average cost of capital. The hurdle rate is a premium on the weighted average cost of capital to allow for unknown risks and unanticipated increases in estimated total costs or decreases in planned revenues, among other risks; and
- if the internal rate of return on the project results in a value lower than the hurdle rate, then Transnet compares this return to the weighted average cost of capital (which is a lower rate) and together with, inter alia, an assessment of the strategic importance of the project to Transnet and/or the Republic of South Africa, Transnet decides whether the project should proceed.

The relevant governing structures review all major capital investment projects based on a number of criteria which may include, but are not limited to, performance of the project, prefeasibility studies and/or feasibility studies.

Transnet has adopted an integrated approach to the planning and execution of capital projects to create capacity throughout the value chain and across the divisions. In this way, all divisions contribute cumulatively to the growth strategy. Transnet Capital Projects, a specialist unit within the Group, executes centrally focused projects that cross multiple divisions within the Group, in addition to certain agreed upon projects on behalf of individual divisions. It is Transnet Capital Projects' responsibility to roll out projects within its control from the initial feasibility phase to the eventual handover to the operating divisions.

Transnet closely monitors and controls spending of the planned amount during the year to help limit spending to the set Group financial parameters and funding thresholds. Where business opportunities identified during the year require further investments, these will be subject to additional evaluations and governance processes. Transnet is committed to both sustaining the current infrastructure and to expanding the business. The R307.5 billion Capital Expenditure Programme is mainly designed to maintain current infrastructure and increase capacity in rail infrastructure and rolling stock (R199.7 billion) in the ports (R94.5 billion), and to increase pipeline throughput (R9.6 billion) as well as R3.7 billion to be spent on Specialist Units over the seven-year period.

Approximately 65 per cent. of the R307.5 billion, is expected to be invested in projects relating to Transnet Freight Rail and Transnet Engineering, 31 per cent. in Transnet Port Terminals and Transnet National Port Authority, 3 per cent. in Transnet Pipelines and 1 per cent. in Specialist Units, over the entire seven-year Capital Expenditure Programme. Transnet's plan is focused on expanding and creating new capacity ahead of demand by its customers. Transnet expects such expenditures to be made both on replacing and expanding ports, pipeline and rail freight assets. The Capital Expenditure Programme has resulted in increased spending by Transnet, much of it funded by new indebtedness. As a result, finance costs have increased and are expected to increase further with increased spending under the programme, although a significant portion of borrowing costs are expected to be capitalised under IAS 23: Borrowing costs. Depreciation and amortisation have also increased over the years as a result of spending included in the previous years' capital expenditure programmes. The approval and governance process of capital investments is as follows:

Capital Investment Proposals

Capital investment proposals submitted to Transnet Capital Projects generally indicate whether the project is an expansionary or sustaining project. The proposal also generally includes a description of business trends and the benefits that the new capital project is expected to yield. The estimated total cost together with the project plan and key milestones are drafted in the submission. The various asset classes involved (for example rolling stock and equipment infrastructure) and the result of the financial evaluation model (net present value, internal rate of return and discounted payback period) are key inclusions generally contained in the capital investment proposals. Other criteria included in the business cases are cost, time, quality, local content, safety and risk.

Divisional Investment Committees

Divisions may approve projects with an estimated total cost of up to R200 million, except for Transnet Freight Rail which is able to approve projects with an estimated total cost of up to R400 million, to the extent the projects have been included in the Capital Expenditure Programme. Lower approval limits apply to unforeseen projects.

Group Capital Investment Committee

The Capital Expenditure Programme is overseen by the Capital Investment Committee ("**CAPIC**"), a committee of the Group Executive Committee, which is chaired by the Group Chief Executive. CAPIC is responsible for: (i) ensuring that capital investment projects are consistent with the strategic focus of the Group; (ii) ensuring that capital expenditure decisions are in accordance with budget and business plans approved by the Board of Directors; (iii) prioritising capital expenditure projects; (iv) monitoring the implementation of project plans to ensure approved capital expenditure projects are carried out with minimal or no delays; (v) reviewing and amending expenditure plans in the event of any unforeseen and unavoidable circumstances, subject to Group limits of authority and the limitations of the Board of Directors' approved budget; (vi) ensuring that such projects reflect value for money; and (vii) conducting post-implementation reviews to determine whether value has indeed been derived by Transnet from the relevant capital investment.

CAPIC may approve projects up to an estimated total cost of R800 million. Lower approval limits apply to unforeseen projects.

*Group Executive Committee ("**Group Exco**")*

The Public Finance Management Act, 1999, as amended (the "**PFMA**"), requires that Transnet submit a corporate plan to the Minister of Finance of the Republic of South Africa (the "**Corporate Plan**") covering the affairs of Transnet for the next three Financial Years. The Group Exco approves projects included in the Corporate Plan with an estimated total cost of up to R1,000 million. Unplanned projects of up to R500 million in estimated total cost may be approved by the Group Exco. Increases of up to R1,000 million in the estimated total cost of projects may be approved by the Group Exco.

Board Acquisitions and Disposals Committee

This committee of the Board of Directors is authorised to approve projects included in the Corporate Plan with an estimated total cost of up to R2,000 million, and its approval is required for projects with estimated total cost in excess of R1,000 million. Unplanned projects over R500 million and not exceeding R1,000 million in estimated total costs may be approved by this committee. Increases of up to R1,400 million in the estimated total cost of projects may be approved by this committee.

Group Chief Executive and Group Chief Financial Officer

The Group Chief Financial Officer and Group Chief Executive have specified limits (R800 million and R1,000 million, respectively) to approve projects without reference or feedback to the CAPIC and/or the Group Exco, although this in practice is uncommon.

Board of Directors

The Board of Directors is authorised to approve projects included in the Corporate Plan, with an estimated total cost in excess of R2,000 million but not exceeding R3,900 million. The Shareholder must be notified of projects exceeding R2,500 million. Unplanned projects over R1,000 million but not exceeding R3,900 million require the approval of the Board of Directors. Furthermore, the Board of Directors evaluates and approves the nature and scope of a proposed variation to any previously approved capital expenditure project not exceeding R1,400 million. The Board of Directors considers and approves the annual capital expenditure budget and the seven-year projections of capital expenditures of the Group. The Board of Directors also approves capital expenditure funding for the Group, subject to shareholder approval as may be required by law. In addition, the Board of Directors aims to ensure that an adequate capital planning process is put in place and that performance is measured against set criteria, including budgets and project plans. All projects with an estimated total cost exceeding R3,900 million require approval of the Shareholder.

Planned Capital Expenditure by Operating Division and Sector

The following table summarises the Group's planned capital expenditures, by operating division, for Financial Years 2014 through 2020, under the MDS:

Division	Actual 2013	Budget 2014	Projections 2015	2016	2017	2018	2019	2020	Total 7 Years
	R million	R million	R million	R million	R million	R million	R million	R million	R million
Freight Rail	18,277	19,019	26,784	34,410	36,359	32,382	30,983	14,427	194,364
Engineering	1,315	954	924	841	548	657	535	832	5,291
National Ports Authority	1,698	2,554	7,639	8,823	9,551	7,399	11,329	10,276	57,571
Port Terminals	2,208	1,859	2,857	6,212	7,456	9,040	5,241	4,235	36,900
Pipelines	2,799	3,268	2,481	775	674	419	977	969	9,563
Specialist Units	1,174	927	646	520	458	398	402	412	3,763
Total before Capital Optimisation[1]	27,471	28,581	41,331	51,581	55,046	50,295	49,467	31,151	307,452
Capital Optimisation	0	(1,976)	(4,901)	(9,231)	(7,723)	2,025	(274)	(1,135)	(23,215)
Total after Capital Optimisation[1]	27,471	26,605	36,430	42,350	47,323	52,320	49,193	30,016	284,237

(1) Transnet's capital investment for the next 7 years is shown before the elimination of inter-company transactions, capital optimisation/and reprioritisation, interventions, and excludes capitalised borrowing costs. The total after capital optimisation for Financial Year 2013 includes intangible assets of R110 million.

Transnet closely monitors and controls spending of planned amounts during each Financial Year to help ensure that spending remains within the set financial parameters and funding thresholds. If business opportunities identified during the Financial Year require further investments, CAPIC subjects any related request to robust evaluations as well as governance processes and prioritises maintaining a balanced portfolio. This approach is designed to assist in meeting all the set criteria and to help mitigate and protect against increased financial and operational risks in the future.

The following table summarises how much of the Group's planned capital expenditures (excluding capitalised borrowing costs) are anticipated to be applied to maintenance projects and expansion projects, for Financial Years 2014 through 2020 under the MDS. See "*Cautionary Note Regarding Forward Looking Statements*" and "*Risk Factors—Risks Related to Transnet's Business*".

For the year ended 31 March	**Expansion Projects**	**Maintenance Projects**
	(R million)	*(R million)*
2014 (Projections)	12,587	15,994
2015 (Projections)	23,316	18,015
2016 (Projections)	33,664	17,917
2017 (Projections)	36,606	18,440
2018 (Projections)	33,072	17,223
2019 (Projections)	32,078	17,389
2020 (Projections)	17,215	13,937
Total for seven years	**188,538**	**118,915**

The following table summarises the Group's planned capital expenditures (excluding capitalised borrowing costs) by major asset class from Financial Year 2014 up to and including Financial Year 2020 under the MDS. See "*Cautionary Note Regarding Forward Looking Statements*" and "*Risk Factors—Risks Related to Transnet's Business*".

	Rail
	(R millions)
Land and buildings	5,447
Infrastructure	73,241
Machinery and Equipment	8,282
Locomotives	70,847
Wagons	41,839
Total	199,656

	Ports
	(R millions)
Land and buildings	10,789
Infrastructure	1,692
Machinery and Equipment	1,649
Port facilities	75,731
Floating crafts	4,610
Total	94,471

	Pipelines and Specialist Units
	(R millions)
Pipeline networks	7,760
Buildings and structures	1,021
Machinery and Equipment	4,544
Total	13,325

Under the MDS, Transnet intends to concentrate its efforts on the following commodities during Financial Year 2014: containers, export coal, domestic coal, export iron ore, manganese, liquid bulk, agriculture, cement, steel, chrome and mined minerals. Transnet also intends to invest a substantial amount under the Capital Expenditure Programme to service all other commodities and to maintain existing services.

The following table summarises the Group's planned capital expenditures (excluding capitalised borrowing costs) by commodity from Financial Year 2014 up to and including Financial Year 2020:

Commodity	Total
	R million
General freight business	142,747
Export coal	35,681
Export iron ore	27,562
Containers	30,223
Bulk ports	25,960
Break-bulk ports	9,248
Pipelines liquid bulk	9,563
Other*	26,468
Total	307,452

* Other includes investments that support commodities that may span across sectors including the above, e.g. tugs and dredgers support all commodities.

Based on the different strategies and initiatives applicable to each corridor, Transnet's planned investments in key corridors for Financial Year 2014 to Financial Year 2020 under the MDS are set out below:

- Richards Bay corridor—predominantly coal line investments;
- Natal Corridor ("**NatCor**")—Container (DCT, Pier 1 and Salisbury Island) and bulk liquid;
- NMPP investments;
- Port Elizabeth/Ngqura/East London Corridor—investments pertain mainly to the new container terminal at Ngqura;
- Cape Corridor investments—predominantly investments at the Cape Town Container Terminal;
- Investment on the Sishen to Saldanha corridor—predominantly export iron ore investments; and
- Investment in general freight locomotives and wagons.

Western corridor development plans

Planned development relates mainly to iron ore and containers for the western corridor. Iron ore capacity on the channel and through the Port of Saldanha is expected to increase to 61mt, while container capacity at the Port of Cape Town is expected to increase to 1.4 million TEUs per annum.

South corridor development plans

South corridor investments relate mainly to the manganese, container and automotive sectors. General freight investments will be undertaken to support activities of the Coega Industrial Development Zone and influence development at the Port of Ngqura.

Planned expansions at the East London and Port Elizabeth car terminals are intended to support the development plans of the motor industry.

Additional container capacity at the Ngqura Container Terminal are intended to support and contribute to the South African ports system and will be reviewed as part of the container hub strategy.

Plans at the Port of Ngqura include provisions for new cargo types, namely dry and liquid bulk type, generated by the Coega Industrial Development Zone, and a potential privately funded refinery.

Eastern corridor development plans

The entrance channel of the Port of Durban has been completed and can now safely accommodate larger vessels. The construction of the permanent sand bypass system is in progress which will prevent sand accumulation behind the south breakwaters and the depletion of sand on the beaches surrounding the port.

Berth Deepening:

The deepening of the berth at the Port of Durban will allow for larger vessels to access the port and increase capacity within the port. The engineering detail design, technical reports, specifications and drawings have been completed. Following a public review, the Environmental Impact Assessment ("**EIA**") report with final public comments was submitted to the Department of Environmental Affairs ("**DEA**") for authorisation in August 2013. The DEA is expected to make a decision during the third quarter of Financial Year 2014. The business case for execution funding is awaiting support from the Board Acquisitions and Disposals Committee subject to the recommendations of an independent consultant. The subsequent approvals from the Board of Directors and the Minister of the Department of Public Enterprises will therefore depend on the outcome of the analysis conducted by an independent consultant.

Pier 1 Phase 2 Salisbury Island Infill:

The Salisbury Island infill will create port infrastructure to increase the container stacking capacity at the Port of Durban. The detail design is on schedule with the geotechnical investigation completed. The final feasibility report is scheduled for completion by March 2014. The business case report requesting approval for the funding of the execution phase is in the process of being drafted.

Other Capacity Increase Projects:

Investments in containers (DCT and Pier 1), automotive (Durban Point Car Terminal) and bulk liquid (Island View) are also being rolled out to address capacity increases and to accommodate the trend in vessel size growth. Transnet is currently pursuing the acquisition of Salisbury Island for future container development. Furthermore, the DDOP site has been acquired and will be utilised for future port development in the Durban precinct.

Work on the NatCor is on-going, with the objective of creating capacity through efficiency improvements.

Construction of the 24 inch trunk line NMPP was completed and commissioned in January 2012. Remaining components include the coastal and inland terminals which are expected to be completed by September 2014.

Expansion at the Port of Richards Bay relates mainly to the dry and liquid bulk sector. Expansion of the Richards Bay Corridor is on-going, with upgrades planned for the infrastructure to support the growth in coal exports.

Gauteng and interior corridor plans

The container terminal at City Deep has reached capacity and therefore a major refurbishment is planned. Beyond the Capital Expenditure Programme, a rail freight ring is required to be constructed around Gauteng, which is intended to enable better access to destinations inside Gauteng from all directions, facilitate better flows through Gauteng and contribute to more efficient operations.

The Waterberg and Botswana regions are expected to develop significantly over the next 20 years, with coal being the main commodity to be transported.

Major Capital Projects

The table below sets out an overview of the actual spending on specific projects through 30 September 2013 and the estimated total cost:

Project	**Estimated total cost***	**For the six months ended 30 September 2013**	**Actual spending since inception to 30 September 2013**
	R million	*R million*	*R million*
Iron ore line capacity expansion to 60mt: Rail	3,722	—	2,768
Acquisition of 32 Class 15E locomotives for the iron ore line	1,687	395	1,643
Coal line expansion to 81mt	5,100	20	1,462
Acquisition of 110 dual voltage locomotives for the coal line	3,700	38	3,673
Acquisition of 100 new diesel electric locomotives	2,382	—	2,351
Acquisition of 43 diesel locomotives	989	172	989
Acquisition of 95 electric locomotives	2,662	103	372
Capitalisation of infrastructure maintenance for the General Freight Business	17,152#	1,626	4,677
Capitalisation of locomotives maintenance for the General Freight Business	14,351#	1,115	3,328
Capitalisation of wagon maintenance for the General Freight Business	9,435#	1,025	2,589
Wagons for the General Freight Business to support the MDS	19,761	1,144	2,974
Acquisition of Container Handling Equipment for Durban Container Terminal MW and point	1,210	71	1,119
Reengineering of Durban Container Terminal	1,685	5	1,654
Cape Town Container expansion	3,893	22	3,869
Ngqura Container Terminal	5,152	30	4,325
New Multi-Product Pipeline (“**NMPP**”)	23,407	1,737	20,002
Acquisition of the Durban International Airport land for development of a dig out port (the DDOP site)	1,850	—	1,850

Future rolling seven-year plan: Financial Year 2014 – Financial Year 2020
* The Estimated total cost is subject to change

The progress made in rolling out the above projects is as follows:

Iron ore line expansions up to 60.0 mt

The iron ore line is the main export channel for iron ore from the mines in the Northern Cape to the Port of Saldanha. Rail capacity has increased to 60.0 mt and port capacity to 58.0 mt over the quay wall.

The pre-feasibility study to expand the capacity to 82.5 mt per annum has been completed. Phase 1D, being the addition of a third tippler and associated rail works, has been approved by the Board of Directors for approximately R1.6 billion. The third tippler will ensure that 60.0 mt per annum can be exported on a sustainable basis as the existing two tipplers currently do not allow for any down time.

Twenty-six of the additional thirty-two locomotives needed to facilitate the increase in iron ore capacity to 60.0 mt have been tested and accepted into operations as at 30 September 2013 with the remaining locomotives expected to be accepted into operation later in Financial Year 2014.

Transnet’s investment in the iron ore expansion project and locomotive acquisitions amounted to R920 million for Financial Year 2013 and R348 million for the six months ended 30 September 2013. Transnet transported 55.7 mt in ore volumes during Financial Year 2013 and 27.6 mt in ore volumes during the six months ended 30 September 2013.

Coal line expansions up to 81.0 mt

The coal line is the main export channel for transporting coal from the mines in Mpumalanga to the Port of Richards Bay. Plans are in place to increase capacity to 81.0 mt in the near future and thereafter to 97.5 mt. The total expansion and sustaining capital investment is estimated to be R32.4 billion over the next seven years.

Transnet obtained approval to expand the Coal Export Channel to 81 mt per annum from the Shareholder Minister in June 2012. The final designs to expand capacity to 81 mt per annum are nearing completion and certain elements of the project are currently being executed. A significant number of required procurements are planned for October and November 2013. The land acquisition process has commenced for substations that need to be built on privately-owned land. Detailed discussions and negotiations with Eskom are in progress to ensure that the upgrading of the electrical supply between Ermelo and Richards Bay is completed in line with the project's schedule. The project is expected to be completed by the third quarter of 2017.

All 110 Class 19E dual voltage locomotives have been delivered and accepted into operations. This will facilitate the planned expansion of the coal line to 81 mt. The locomotives, in combination with the 696 wagons that were built during the year at a cost of R779 million and the upgraded infrastructure, are expected to contribute to the increased throughput of export coal line on the Richards Bay corridor.

A total of R1.396 billion was invested in the coal line expansion to 81 mt per annum and the acquisition of the Class 19E locomotives as at 30 September 2013. 68.99 mt of export coal was transported during Financial Year 2013 and 35.5 mt of export coal was transported during the six months ended 30 September 2013.

General Freight Business

An amount of R13 billion and R5.9 billion was invested in the general freight business and relates to the upgrade and maintenance of infrastructure and rolling stock in Financial Year 2013 and the six months ended 30 September, respectively.

All of the 100 Class 43 new diesel electric mainline locomotives were delivered and accepted into operations in Financial Year 2013. The project was accelerated; resulting in the delivery of locomotives two months earlier than initially planned. An additional 43 diesel locomotives for the general freight business have also been accepted into operation as at 30 September 2013. To date, an amount of R1.272 billion has been invested on the acquisition of these locomotives.

During Financial Year 2013, the Company concluded a contract for the supply of 95 electric locomotives for the general freight business at a cost of R2.7 billion which will further support operational performance, reliability and overall energy efficiency of the rail service. The first locomotive has been built in China and will be shipped to South Africa. A total of ten units will be manufactured and assembled in China, with the remaining 85 locomotives assembled in Transnet Engineering's Koedoespoort plant. The capital investment on the acquisition of these locomotives amounted to R269 million for Financial Year 2013.

Additionally, on 12 August 2013 Transnet obtained approval from the Shareholder to acquire 1,064 locomotives for the general freight business at an estimated total cost of R38.6 billion.

The Company is finalising the business case for the expansion of manganese throughput to 16mt through the port of Ngqura, and expects to submit the business case to the Shareholder by January 2014 as per the requirements of Section 54 of the PFMA.

A total of R3.1 billion and R1.6 billion were invested on interventions to sustain the company's infrastructure in Financial Year 2013 and the six months ended 30 September 2013, respectively. In addition, for Financial Year 2013, to keep the condition of the rolling stock at an acceptable level, Transnet invested R2.2 billion and R1.6 billion in the maintenance and overhauling of locomotives and wagons, respectively. For the six months ended 30 September 2013, to keep the condition of the rolling stock at an acceptable level, Transnet invested R1.1 billion and R1.0 billion in the maintenance and overhauling of locomotives and wagons, respectively.

Transnet completed building 2,481 wagons at a cost of R1.8 billion for Financial Year 2013. Transnet completed building 1,944 wagons at a cost of R1.1 billion for the six months ended 30 September 2013. The specifications of these wagons, which are required to support the MDS volume growth, included automotive wagons, flatbed wagons to rail containers and CR type wagons for transporting mineral and mining products (which include manganese, coal for domestic consumption and chrome).

Durban Container Terminal ("**DCT**")

The DCT is located at the Port of Durban and is one of the busiest container facilities in the southern hemisphere. The project to re-engineer the terminal through reconfiguration and equipment replacement will increase terminal capacity to 2.9 million TEUs, compared to the current output of 2.1 million TEUs and is expected to be completed by March 2014.

A total of R44 million and R32.5 million was invested in the DCT re-engineering project in Financial Year 2013 and in the six months ended 30 September 2013, respectively. The project is nearing completion with only minor outstanding issues remaining. Commissioning of the refuelling facility is in progress and the decommissioning of the old facility was completed in August 2013. No lost-time injuries were experienced and the safety record has improved to 717,000 lost-time injury free hours.

The re-location of the out-of-gauge operations from their old to new facility is in progress and reconfiguration of the associated container stacks has commenced, with completion expected by March 2014.

All seven of the fully assembled tandem-lift ship-to-shore cranes were delivered during Financial Year 2013. The capital invested on the acquisition of the cranes amounted to R502 million for the year and R712 million since inception of the project.

Construction of the associated crane rails infrastructure costing R89 million for the new container cranes is nearing completion and 174,000 lost-time injury free hours were recorded.

All thirteen straddle carriers have been delivered as well as commissioned as at 30 September 2013 and have commenced operations.

The first three tandem-lift cranes started operations in January 2013 and have handled 97,700 TEUs as of 31 March 2013. Four new cranes became operational in May 2013.

A total of R894 million has been invested in container handling equipment for DCT, Maydon Wharf and the Point in Financial Year 2013. Transnet has commenced with the reconstruction and deepening of seven steel sheet piled Berths. Construction on the first of the berths, Berth 12, has been successfully completed and is now operational. A further R1.6 billion investment in the Maydon Wharf berths is planned.

Cape Town Container Terminal

The expansion of the Cape Town Container Terminal to deepen the berths and increase container handling capacity to 900,000 TEUs has been completed and consideration is now being given to increase container handling capacity to 1.4 million TEUs to address growth in demand for containers in the Western Cape region.

Capital invested in the Cape Town Container Terminal amounted to R228 million and R22 million for Financial Year 2013 and the six months ended 30 September 2013, respectively. One hundred and eight people were on site by March 2013 with no lost time injury incident occurring since the second half of the Financial Year 2013.

Ngqura Container Terminal ("**NCT**")

The NCT paving was completed on time in December 2012. The construction of Transnet National Port Authority's administrative facility and the administration craft basin for the tug boats remain the only outstanding items. Plans for the new buildings, which are based on a "green" building concept for efficient energy management, has been approved.

Transnet invested R316 million to acquire equipment for the NCT Phase 2A expansion to 1.5 million TEUs. As at 30 September 2013, 48 haulers and 48 trailers have been delivered.

The total capital invested at the NCT amounted to R444 million and R30 million in Financial Year 2013 and the six months ended 30 September 2013, respectively.

NMPP

The construction on the TM2 and TM1 is in progress. 4,108 people are currently employed on the project. TM2 reported one lost-time injury and has exceeded 3.4 million lost-time injury free hours. Inclement weather has caused disruption to the schedule and mitigation plans are in place to ensure timely completion by December.

R2.5 billion and R1.7 billion were invested in the NMPP during Financial Year 2013 and the six months ended 30 September 2013, respectively. Approximately R20 billion has been invested in the NMPP since the commencement of the project in 2006. The entire NMPP project is expected to be completed within the estimated total cost of R23.4 billion by September 2014.

DDOP site

The DDOP site acquisition from the Airports Company of South Africa SOC Ltd ("**ACSA**") was concluded in Financial Year 2013 at a total cost of R1.85 billion. Final payment of R650 million was made in September 2012 as per the sale agreement with ACSA. The DDOP site is proposed to be developed into a dig-out port to address demand requirements in the container, liquid bulk and automotive sectors up to 2040. Various funding models and the execution strategy for the development are currently being explored.

The pre-feasibility work on this project is on track to be completed by July 2014. Geotechnical studies indicate that there are no flaws in the ground that will impact the construction of the port. Currently, the marine contractor is progressing with the seabed vibro-cores and cone penetration tests on the proposed entrance channel. Offshore instrumentation has been installed for the monitoring of wind, wave and current conditions.

Certain procurement processes have commenced for the appointment of the environmental assessment practitioner. Some baseline studies relating to flora, fauna and contamination have been completed.

The landside geotechnical investigations are progressing without any complications and will soon move into the beach area for drilling.

Competition

Transnet believes that it holds a strong market position among South African bulk freight transportation companies because of its integrated platform.

Transnet Freight Rail faces competition from a number of companies providing bulk commodity transport by road instead of rail and in particular from trucking companies on the corridor between Durban and Gauteng. Transnet's three principal freight and logistics competitors on this corridor are Grindrod Limited, Barloworld Logistics and Imperial Logistics.

Although, Transnet Engineering faces competition in maintenance and fabrication, there is a significant backlog of maintenance and construction work at Transnet Freight Rail, which Transnet Engineering believes will continue to provide it with work.

Pursuant to the Legal Succession to the South African Transport Services Act, 1989 as amended and the Ports Act, Transnet National Ports Authority currently serves as landlord for all commercial ports within the Republic of South Africa. Hence, Transnet National Ports Authority faces no competition within the Republic of South Africa in terms of the management and provision of port infrastructure and marine services for the eight major commercial ports operating in the country. There is a possibility Transnet may face competition regionally or globally, i.e. in cases where shipping companies, freight forwarders and other port customers use other nearby ports, such as Maputo, Mozambique, instead of ports in the Republic of South Africa.

Transnet Port Terminals faces domestic competition from some smaller private ports with respect to break-bulk cargo. It also faces competition from other terminal operators at the eight ports operated by Transnet National Ports Authority. At Richards Bay, for example, the coal terminal is owned and operated by the coal mining exporters rather than Transnet. Regionally, Transnet faces limited competition from port terminals operated by Dubai Ports World in Mozambique and Djibouti, and Transnet recently experienced the loss of some granite export business to the port at Maputo, Mozambique. Transnet Port Terminals faces growing competition from the Port of Maputo. Competition is most acute in the break-bulk sector in which private entities operate.

Transnet Pipelines faces some competition from road transport providers, specifically on the Durban-Gauteng corridor.

Property

The following table sets out information on Transnet's owned real property as at 30 September 2013:

Type of Property	Location	Total Area in Hectares	
		Registered	Un-Registered
Transnet Freight Rail	Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Northern Cape, Mpumalanga, Limpopo, North West and Western Cape	64,897	28,884
Transnet Engineering	Salt River, Uitenhage, Bloemfontein, Durban, Germiston, Koedoespoort, Kilner Park and other former Transnet Freight Rail properties	791	0
Transnet Property	Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Northern Cape, Limpopo, North West, Mpumalanga and Western Cape	8,550	857
Transnet National Ports Authority	Cape Town, Durban, East London, Mossel Bay, Port Nolloth, Port Elizabeth, Richards Bay and Saldanha	5,764	68,223
Transnet Pipelines and others	Eastern Cape, Western Cape, Gauteng and KwaZulu-Natal	66	1
		80,068	97,965

Employees

The table below presents the number of actual employees employed by each operating division of Transnet as at 30 September 2013 and 2012 and 31 March 2013, 2012 and 2011:

	As at 30 September		As at 31 March		
	2013	**2012**	**2013**	**2012**	**2011**
Operating Division					
Transnet Freight Rail					
Managerial	2,196	2,227	2,201	1,886	1,750
Non-managerial	26,979	27,567	27,288	23,556	21,915
Transnet Engineering					
Managerial	1,193	1,068	1,158	997	913
Non-managerial	11,542	10,998	11,623	11,575	12,088
Transnet National Ports Authority					
Managerial	788	740	760	704	678
Non-managerial	2,879	2,841	2,827	2,718	2,857
Transnet Port Terminals					
Managerial	482	463	469	425	387
Non-managerial	6,161	6,065	6,193	5,786	5,480
Transnet Pipelines					
Managerial	118	114	118	116	104
Non-managerial	501	453	509	449	463
Other*	1,784	1,425	1,644	2,710	2,443
	54,623	**53,961**	**54,790**	**50,922**	**49,078**

* Other includes Corporate Centre; Transnet Fuel Solutions; Transnet Capital Projects; Transnet Heritage Foundation and Transnet Property.

A significant feature of Transnet's workforce is the high level of unionisation. The threshold for union recognition in Transnet is 30 per cent. of employees in Transnet and the relevant operating division, as per the Recognition Agreement. Transnet currently recognises two unions, SATAWU and UTATU, and the union membership accounts for approximately 83 per cent. of non-management employees. Union recognition is governed by a collective agreement that provides the framework for engagement, consultation, negotiation and shop steward governance with Transnet's recognised unions. Union recognition is verified and confirmed annually based on the membership numbers.

Transnet believes it has historically had a positive relationship with its recognised unions and that this has facilitated productive collective bargaining discussions. Wage increases for bargaining unit employees, represented by the unions, are negotiated annually. Transnet management has successfully negotiated a multi-year wage agreement for all bargaining unit employees for the period from 1 April 2013 to 31 March 2015.

Transnet is not immune to challenges from emerging unions and is generally open to discussions with any union seeking recognition within Transnet, provided they meet the Recognition Agreement thresholds for Transnet and the operating divisions as set out above. The labour relations environment within the Republic of South Africa is currently volatile and Transnet is committed to resolving all issues in a timely manner through conciliation and to avert all potential formal disputes. Transnet continues to pursue a positive labour engagement environment and progressive labour relations policies and practices within the various operating divisions. The MDS requires a stable and positive labour relations environment and this will be a key focus area for Transnet going forward.

Transnet has an aging workforce. As at 30 September 2013, the average age of Transnet's employees was 38 years. Transnet estimates that under the MDS, it will need approximately 12,021 additional permanent employees over the next seven Financial Years. This figure also takes into account an estimated turnover rate of between five and six per cent. per year. As part of this growth in employees, Transnet intends to focus on recruiting employees with critical operational skills. The total number of skilled employees is expected to increase by 23.8 per cent. over the next seven Financial Years, resulting in 3,114 skilled employees.

The Group operates several defined benefit funds and a defined contribution fund. New employees may only join the defined contribution fund. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The defined benefit funds are actuarially valued by professional independent consulting actuaries on an annual basis. In addition, the Group provides post-retirement medical benefits to qualifying employees and pensioners.

Health and Safety

Transnet believes that health and safety is a critical foundation for reliable operations and effective service delivery to its customers. The unreserved commitment by Transnet management and labour is essential in leading, facilitating and demonstrating appropriate behaviour at all levels of Transnet. Transnet has consequently established a single framework for the management of health and safety risks across the Group. This framework is a crucial part of Transnet's commitment to reduce the number of Occupational Health diseases, Personal injuries and fatalities, derailments and equipment failures, as well as the social and financial impact of these incidents.

The Group Risk Committee, nominated by the Board of Directors, is responsible for reviewing, assessing the risk control processes and systems of Transnet and ensuring that health and safety policies are effectively communicated throughout the Group. Transnet has established a mandatory incident reporting process and believes that its stringent SHEQ performance targets are aligned with international best practices. Transnet has also implemented detailed safety improvement plans, including the Transnet Safety Culture Programme, which is aimed at changing employee behaviour by instilling safety awareness.

Transnet aspires to achieve a zero injury and fatality rate in all of its operations, however, as Transnet operates in a heavily industrialised industry, Transnet's operations are not without risk. Despite Transnet's efforts to improve safety, the total number of employee fatalities increased from six in Financial Year 2012 to nine in Financial Year 2013. From 1 April to 30 September 2013, there were a further six employee fatalities. The Group's rolling Disabling Injury Frequency Rate ("**DIFR**") measures the number of work-related injury rate that result in fatalities, permanent disability, partial disability or temporary disability per 200,000 employee hours. The Group's 12-month rolling DIFR average at the end of Financial Year 2013 is 0.74 compared to 0.65 in Financial Year 2012. While the DIFR average for Financial Year 2013 is 14 per cent. worse than in Financial Year 2012, Financial Year 2013's DIFR is 8 per cent. better than the target of 0.80 set for the period. As at 30 September 2013, the 12-month rolling DIFR was 0.76. Transnet is committed to improving its safety record and has included safety performance reviews in the performance contracts of all of its managers.

For Financial Year 2013, there were 125 fatalities involving members of the public compared with 98 for Financial Year 2012. Public fatalities reported for Financial Year 2014 to September 2013 have decreased by 58 per cent. when compared to the same period in the previous Financial Year, from 85 to 36 fatalities. Trespassers on the Company's railway reserve accounted for 68 per cent. of public fatalities. This is largely due to the challenges Transnet Freight Rail faces with encroachment of informal settlements on the railway reserve, fencing and access control. Transnet is investigating the possibility of deploying level crossing wardens at particular locations that experience high levels of such encroachment. Transnet is also in the process of conducting level crossing risk assessments as per the requirements of the national railway safety regulator. Given the number of level crossings in the rail network, this exercise will require an extended period of time. Furthermore, Transnet Engineering has developed two prototypes of level crossing technology solutions which will be deployed for testing at two locations experiencing high levels of encroachment.

The Transnet Executive Committee has approved the Transnet Occupational Health Management Policy which seeks to proactively deal with issues of occupational health and supplement wellness programmes. Transnet's employee wellness programmes aim to reduce workplace absenteeism and improve productivity. The services include a counselling service, specific programmes tailored to organisational needs, health risk assessments and an executive wellness programme. In addition, Transnet established its Lifestyle Management Programme on HIV/AIDS in July 2001 to provide resources, training and education to its employees. Transnet continues to provide health management to HIV-positive employees and provides them with access to appropriate medication regardless of whether they are eligible for Transnet's medical insurance schemes. See "*Risk Factors—Risks Related to Transnet's Business—Transnet is exposed to risks and costs related to health and safety*".

Security

Group Risk Management Plan

In response to Treasury Regulations (Regulation 29.1.1) prescribed under the PFMA, Transnet developed a Fraud Risk Management Plan, effective from Financial Year 2009, to manage the Group's fraud risk exposure. As part of its fraud prevention plan, Transnet has also established a Tip-Offs Anonymous Hotline, which is an external governing body independent of Transnet that assists in tackling reported criminal activity by allowing individuals to report suspected fraud at Transnet. In addition, Transnet has established a committee to investigate and report to the Group's internal control committee on the results of its investigations.

Transnet has also established the Internal Audit Forensics unit, which is an internal governance unit that address all improper or unlawful occurrences within the Company. Transnet believes that the consistent use of the Internal Audit Forensics unit reflects employees' confidence in the whistle-blower mechanism and forms an integral part of Transnet's anti-fraud and anti-corruption efforts contained within its Fraud Risk Management Plan. Anti-fraud working group committees are convened regularly to ensure the effectiveness of the Fraud Management Plan and to consider matters reported through the Tip-Offs Anonymous Hotline.

Security Management

During Financial Year 2009, Transnet developed the Transnet Security Management (the "**TSM**") strategy through an interactive process that incorporated input from key internal and external stakeholders, such as the South African Police Service (the "**SAPS**") and the National Intelligence Agency.

The overall strategy development took into consideration applicable legislative requirements and international codes, including the ISPS Code and the Ports Act, both of which are applicable to the ports, and the National Key Points Act, 1980 as amended ("**National Key Points Act**"), which is applicable to the pipelines and other key point installations. Other key drivers in the security environment are the ERM Framework and the Transnet Freight Corridor strategy.

The TSM strategy aims to protect Transnet's customers and employees, as well as to secure Transnet's assets, income and infrastructure. This is planned to be achieved by integrating and focusing TSM through intelligence based operations; the application of technology; and the collective inputs of Transnet's internal and external stakeholders. In implementing the TSM strategy, operational frameworks have been developed in all the operating divisions in line with the security strategy.

Transnet has integrated its security efforts by introducing security working groups throughout its operations and by collaborating with key external role-players, such as the SAPS. Transnet Pipelines' pump stations, which are declared national key points, have been upgraded in line with the prescribed standards. All security service providers and Transnet's security staff deployed at these sites are accredited as national key point service providers and security officers, respectively.

In an effort to further improve its security management program, in June 2011, Transnet established a Corporate Security Management Office and appointed a General Manager with delegated authority to manage security throughout Transnet and who is accountable to the Group Chief Executive. The security department has adopted a 'Hybrid Security Model' with centralised command and control as well as decentralised execution and reporting. The 'Role and Mandate of Security Management' policy providing the mandate and guidelines for the

Group's and operating divisions' security management structures has been developed and approved, and is currently being implemented. In addition, to assist in keeping certain sensitive information secure, the Information Classification Policy and the Information Classification Standard have been developed, approved and implemented. Other key security management policies developed and awaiting approval include the Organisational Security Policy, Firearms and Ammunition Control Policy, Investigations and Incident Reporting Policy and the Personnel Security Policy. The Integrated Security Management Strategy initially developed, approved and implemented in 2009, has been revised and aligned with the current organisational mission.

The theft of Transnet's copper cable remains a significant impediment to the reliability and predictability of Transnet's business. In particular, security losses amounted to R58 million in Financial Year 2013, and the largest portion in direct security losses was due to stolen copper cables. Transnet Freight Rail is particularly vulnerable to theft and has instituted a plan to replace copper cables in high-risk areas with cables comprising other materials in order to reduce the incidents of theft, and has engaged railway police and a private security company to patrol its track. Transnet expects that the Second Hand Goods Act, 2009, as amended (the "**Second Hand Goods Act**") will force second-hand dealers to keep proper record of all deals they transact, as well as allow the SAPS full access to all records. Transnet hopes that these initiatives will aid in protecting its copper and other assets.

Although the cable theft incidents increased (from 1,432 in Financial Year 2009 to 2,014 in Financial Year 2010 and then to 2,091 in Financial Year 2011) the introduction of the Second Hand Goods Act has assisted Transnet, in conjunction with its internal and external security as well as the SAPS, to reduce cable theft incidents significantly to 1,557 incidents in Financial Year 2012 and 1,238 incidents in Financial Year 2013. This amounted to a reduction of 26 per cent. from Financial Year 2011 to Financial Year 2012 and a further 20 per cent. reduction from Financial Year 2012 to Financial Year 2013. Approximately 260 kilometres of cable was stolen from Transnet during Financial Year 2011, 130 kilometres during Financial Year 2012 and 96 kilometres in Financial Year 2013. This amounted to a reduction of 50 per cent. from Financial Year 2011 to Financial Year 2012 and a reduction of 26 per cent. from Financial Year 2012 to Financial Year 2013.

Transnet is adversely affected by organised crime syndicates targeting its container trains en route. Transnet continues to use a specialised company to supply and fit specialised locks to safeguard containers. The locking mechanisms of the special locks are changed regularly to prevent criminals from forging keys. In addition, identified container trains are being escorted through volatile areas. Transnet believes that progress was made from Financial Year 2012 to Financial year 2013. During Financial Year 2012 there was value loss of R10.1 million as compared to the value loss of R5.2 million in Financial Year 2013, a decrease of 49 per cent. Transnet is moving to protect its valuable infrastructure and operations. Through Transnet's enhanced security procedures, in Financial Year 2013 an average of 130 people per annum suspected of criminal activity on its property were arrested and an average of approximately R1.7 million per month of stolen Transnet assets was recovered.

In line with the Ports Act and the ISPS Code, Transnet National Ports Authority and Transnet Port Terminals are in the process of finalising the security upgrade projects at all of Transnet's ports.

The ISPS Code came into being as a result of a resolution by the United Nations Security Council in response to vulnerabilities in the maritime sector. Transnet National Ports Authority has been fully compliant with the ISPS Code since 29 June 2004. In order to become compliant, Transnet upgraded its security, retrained its security personnel, re-fenced port boundaries and installed advanced security features including closed-circuit television for some of its terminals and automatic identification systems that allow for remote ship identification by port control.

In Financial Year 2014 and beyond, Transnet intends to improve its security efforts by limiting outsourced security personnel to non-critical sites and employing additional experienced and skilled personnel to safeguard its critical installations and sensitive areas/corridors. Transnet believes this approach will be beneficial because it should ensure that Transnet assets are more effectively protected and it will also promote the creation of jobs. Transnet initiated a recruitment drive during Financial Year 2012 which is ongoing. Specialist personnel are being recruited at the School of Security so that in house personnel are trained to the highest levels and programmes are implemented to enable employees' skills retention.

Environment

Environmental sustainability management is a key focus area for the Group. The policies and framework for Transnet's environmental management are set and monitored at a Group level to ensure consistent application of these policies and the framework across the Group. The Environmental Management System Control Framework (the "**EMSCF**") was approved by the Risk Management Committee in November 2011 and is being implemented across the Group. It has been aligned with the international standard for Environmental Management System ISO 14001. The Group is responsible for the culture of environmental awareness across Transnet, and for facilitating robust risk assessment and auditing processes within the EMSCF. The Transnet Environmental Forum aims to facilitate the exchange of information, experiences, ideas and best practices with regard to environmental management across the Group. The responsibility for implementing the environmental governance framework within Transnet rests with the respective operating divisions and specialist units, all of which are part of the Transnet Enterprise Risk Management Framework.

Transnet's operational activities occur in a variety of sensitive environments. As a result, Transnet seeks to promote environmental awareness among its employees as well as the communities in which it operates. Transnet believes it has made significant progress in implementing the ISO 14001 environmental management systems and principles in its operating divisions to institutionalise international best practice and through the EMSCF, which seeks to ensure a standardised approach throughout the Group to environmental management.

The DEA conducted a number of compliance monitoring inspections during 2010 through to 31 March 2013. These inspections are mandated by national environmental statutory requirements, in particular, the National Environmental Management Act, 1998, as amended (the "**NEMA**").

The DEA undertook a compliance monitoring inspection in the Port of Richards Bay in October 2010. Transnet received the report on 30 September 2011 and responded on 20 October 2011. The issues identified by the DEA in the report ranged from alleged non-compliance with certain operating conditions to conducting unauthorised activities. Transnet received a letter dated 25 January 2013 from the DEA indicating their intent to issue a compliance notice over apparent non-compliance with administrative requirements of an environmental authorisation, including waste management concerns and issues related to one of the tenants in the Port of Richards Bay. Transnet responded on 22 March 2013 with rebuttals for all the issues raised and no further correspondence has been received from the DEA to date. Transnet has set up a Richards Bay Environmental Steering Committee with the aim of investigating and addressing environmental concerns within the port.

Government Notice No. 248 (2010) was published under section 21 of the statute governing air quality in the Republic of South Africa, the National Environmental Management: Air Quality Act, 2004, as amended (the "**NEMQA**") and classifies storage facilities as a listed activity. To operate any facility classified as a listed activity, the owner of the facility must be in possession of an atmospheric emission license (an "**AEL**"). The AEL is issued by the atmospheric emission licensing authority. Applications for AELs for nine Transnet Pipelines depots were submitted to the relevant licensing authorities during early 2012. AELs have been received for two sites, namely Ladysmith and TM2 of the NMPP. We are awaiting feedback from authorities on the rest of the other depots.

On 10 May 2012, the Transnet Pipelines feeder valve gasket within the pump station of the Coalbrook depot failed. The pipeline was transporting diesel at the time, and although emergency measures were immediately initiated and the pipeline was temporarily shut down before being repaired, the incident resulted in approximately 5,500 litres of diesel being spilled. The diesel was spilled into the manifold and onto the surrounding areas immediately adjacent to the depot. Spill Tech, a hazardous materials and pollution control response company ("**Spill Tech**"), was alerted and arrived at the site shortly after the incident occurred. Spill clean-up and containment measures commenced immediately, including the recovery of the spilt diesel. The incident was reported as per the requirements of section 30 of the National Environmental Management: Waste Act, 2008, as amended (the "**Waste Act**"). Spill Tech subsequently contacted Geomeasure Group and a contaminated land specialist was brought in to conduct the initial site assessment of the spill event to determine its current and future impacts on the receiving environment. Recommendations for remediation were made and are currently being implemented.

A petrol spill incident occurred at the Kendal depot due to a fuel valve being left open on 20 June 2012. The incident was reported to the relevant authorities as a Waste Act section 30 emergency incident. Clean-up procedures were conducted. Four groundwater monitoring wells or boreholes were sunk to determine the extent of hydrocarbon pollution of groundwater resources. Based on the sampling that was conducted on 14 February 2013, two monitoring wells were found to be clear of hydrocarbons while the other two monitoring wells showed high hydrocarbon concentrations. Further sampling was conducted in May 2013. One borehole still has elevated hydrocarbon levels. The site is being remediated in line with legal requirements.

On 3 October 2012, a contractor excavating a trench for the installation of a reticulated sewage line near Tshiame A section, for the Maluti a Phofung Local Municipality, ruptured a Transnet Pipelines pipeline which conveys petrol to the Gauteng region. It was estimated that approximately 338,300 litres of petrol was lost from the pipeline, although approximately 205,011 litres of petrol was subsequently recovered by means of pumping petrol from the trenches into road tankers. The incident was reported to the relevant authorities as a Waste Act section 30 emergency incident. Spill Tech was called to site to aid in the recovery of petrol from the open excavations, to contain the overland flow of petrol and to commence remediation measures. Geomeasure Group was contacted by Spill Tech and was requested to undertake an environmental site assessment. A total of 17 monitoring wells have been installed to allow the monitoring and recovery of petrol, as well as the collection and monitoring of water samples from the down-gradient spring and dam.

During the week of the 25 November 2012 to 1 December 2012, strong petrol vapours were regularly detected in the stormwater drain outlet, which emerges down-gradient of the tank farm at the Transnet Pipelines Ladysmith Depot. During this period a site inspection was also undertaken by officials from the KwaZulu-Natal ("**KZN**") Department of Agriculture and Environmental Affairs. This department instructed Transnet Pipelines to investigate the source of the leakage. Spill Tech was subsequently called to site to assist in recovering the film of petrol observed in the on-site stormwater drains using absorbents. Geomeasure Group was brought in to conduct an environmental site assessment of the area in proximity to the tank farm and nearby stormwater drain. The last sampling event taken from the seven monitoring wells and four stormwater drains did not contain any dissolved phase hydrocarbon compounds. It was recommended that a routine bi-annual monitoring of selected groundwater and surface water sampling points at the Ladysmith Depot should be undertaken to ensure that groundwater and surface water in the immediate vicinity of the depot remains clear of elevated levels of hydrocarbons. The KZN Department of Agriculture and Environmental Affairs have agreed to the measures put in place.

On 26 February 2013, Transnet Pipelines' workers were undertaking routine testing and maintenance in Ladysmith along the pipeline which conveys refined petroleum products from Durban to the Gauteng region. Upon observing their presence, the local landowner, who owns the land through which the pipeline traverses, reported to the workers that petroleum fumes were noticed in the vicinity of the pipeline. Upon undertaking excavations along the identified area of the pipeline, petrol was observed in the soils and within the underlying bedrock. Spill Tech was called to site the following day to aid in the excavation and containment of affected soils, to commence remediation measures, and to assist in finding the leak point. The leak was detected and repaired and pipe re-wrapping has commenced. Monitoring and sampling from 22 monitoring wells and the off-site ground and surface water samples is on-going. Bio-remediation pads have been placed in the vicinity of the incident for the remediation of impacted soils. Recovered petrol and groundwater mixture is passed through an oil-water stripper, as well as an airstripper, to remove the hydrocarbons.

Petroleum had previously been detected on an infrequent basis in the canal within the Ladysmith Depot and, although the source was unknown at the time, booms were put in place to absorb petroleum floating in the canal water while investigations were taking place. On 3 July 2013 petroleum odour was detected during a training exercise. Upon investigation it was determined that the bursting disc on the base injection line was corroded and product leaked into the surrounding environment. An emergency incident report was submitted to the authorities and a site visit and presentation were held with the Departments of Water Affairs and Environmental Affairs. Remediation measures are currently underway, including the installation of monitoring wells.

On 20 August 2013 a coal-carrying vessel, the MV Smart, ran aground due to engine failure in the Port of Richards Bay whilst leaving the port. No environmental spills occurred.

On 10 September 2013, the Durban to Johannesburg Pipeline was damaged while a trench was being constructed by a landowner, resulting in a petroleum spillage. Transnet Pipelines activated its emergency plan, shutting down the pipeline and isolating the area. The Departments of Environmental Affairs and Water Affairs were notified of the incident. Procedures are in place to recover the petroleum and transport it to the depot. Remediation of the environment will be on-going. The pipeline has since been repaired and is operational again.

At the Tarlton storage and distribution facility, a waste management licence is being sought under the terms of the Waste Act. The waste management licence application is for remediation of contaminated land resulting from remnant hydrocarbon contamination.

There were a number of incidents that occurred during the construction of the NMPP project. The most significant incidents were associated with heritage sites and were all reported to the relevant authorities, including the South African Heritage Resource Agency and Amafa, the provincial heritage agency for KZN. Amafa has concluded that, based on the incident notifications and detailed incident rectification report, there is currently insufficient evidence to prosecute Transnet. The South African Heritage Resource Agency assessment has been undertaken and no further transgressions were noted. It is anticipated that no further action will be taken by the relevant authorities.

In keeping with Transnet's philosophy of being an environmentally responsible corporate citizen, Transnet undertook an extensive analysis of asbestos-contaminated areas across all of its operations. Transnet plans to implement a Group-wide rehabilitation programme. Currently, Transnet Freight Rail is in the process of rehabilitating certain asbestos-contaminated sites where exposure to asbestos interferes with the day-to-day implementation of the Group's infrastructure development and maintenance operations.

Additionally, Transnet Freight Rail helped sponsor the construction of a pipeline aimed at the treatment and diversion of wastewater from the Kamfers Dam pan in order to supply water to farmers in the Kimberley area. This has had the additional effect of removing excess wastewater from the pan, thereby reducing flooding of flamingo breeding grounds situated there.

Transnet has instituted bi-monthly meetings with the key governmental departments to track progress and deal with issues that may arise during the Capital Expenditure Programme, as well as the interpretation and implementation of the environmental impact regulations. Both Transnet and the DEA report to the Presidential Infrastructure Coordinating Committee (the "**PICC**") on all environmental impact assessment processes related to projects included in the Government's National Infrastructure Plan.

In Financial Year 2013, Transnet progressed its objective of mitigating climate change by:

- continuing to shift freight transportation from using roads to rail in order to deliver a positive carbon emissions reduction in the transport sector;
- improving the accuracy of measuring and reporting its carbon emissions in order to enable proactive carbon emissions targeting within the Company;
- developing a carbon calculator to calculate the carbon emissions benefit of using rail instead of roads to move specific tonnages of cargo along specific routes in southern Africa;
- instituting a Company-wide focus on electrical energy efficiency with operations-specific targets and performance monitoring, which has reduced Transnet's Scope 2 emissions under the Greenhouse Gas Protocol, a measure of quantifying and managing greenhouse gas emissions, and increased awareness of energy management
- becoming a member of the carbon disclosure project; and
- formulating a comprehensive energy security and carbon mitigation strategy to meet Transnet's short and long-term plans for efficient energy usage and carbon emission reduction across the business, which will be completed by the end of Financial Year 2014.

Information Technology

Information Management Services ("**IMS**") is designed to support Transnet's business strategy by providing effective and efficient information technology ability to the Group. IMS comprises a shared network infrastructure, desktop computing environment, data centre and IT service providers.

IMS is an integral part of business, as it is fundamental in enabling Transnet to achieve its strategic objectives in line with the MDS. In order to assist with the MDS, IMS is focused on:

- responding to customer demand through increasing capacity and driving operational efficiencies for 'delivering freight reliably';
- providing a solid and responsive information and communications technology system by monitoring strategic, tactical and operational capabilities to ensure adequate levels of business integration across operating divisions to unlock efficiencies; and
- providing effective and efficient IT governance, control and management to improve the Group's operational governances control and efficiency.

IMS believes it aligns its governance and compliance to statutory requirements by applying the appropriate risk and process control frameworks.

IMS Improvement Programme

In order to address the key issues and risks affecting IMS, Transnet's management implemented an improvement programme. Key areas include establishing: (i) integrated management and governance frameworks across the Group; (ii) a risk management framework with improved control self-assessments; (iii) integrated reporting mechanisms to key shareholders and Group committees; (iv) standard key performance indicators to monitor performance; (v) standard information security practices for the Group; and (vi) defined third-party and vendor management policies.

Other IMS initiatives include:

- HR Transformation Programme: intended to improve operating efficiencies among IMS' employees through the programme's E-Recruitment, Performance Management, Workforce Planning, Time and Attendance and Training functions.
- Cash Management Programme: aimed at improving the cash flow management and forecasting for Transnet in order for the business to make sound funding investment decisions.
- Contract Lifecycle Management: intended to improve end to end contract management visibility and handling of Transnet's commercial and procurement contracts.
- Video Conferencing Enablement: designed to assist Transnet in conducting its business in real time thereby enabling more effective communication and collaboration.
- Business Process Optimisation: IMS intends to review its current business solution for dealing with commodity flows in order to define the requirements for an integrated planning, scheduling, track and trace and forecasting solution, with customer relationship management and business analytics for real time integration information to improve customer service.

IMS 2020 Vision

The IMS 2020 Vision is an IMS strategy which was developed in February 2012 to address the Group's key business challenges in light of the MDS. A detailed analysis was conducted to determine the key strategic initiatives that would need to be implemented in order to meet the Group's strategic goals. These key strategic initiatives were aligned to the eight pillars of the MDS. Some of the key capabilities required include:

- an integrated planning, scheduling and forecasting capability to improve and enhance service delivery;
- better visibility of end-to-end commodity value chain information and integration with partners and customers to provide a clear view of the entire supply chain;
- the standardisation and integration of enterprise-wide business processes and solutions to create a resilient and efficient supply chain;
- effective standardised and shared metrics to continuously measure and monitor business performance, and to improve accuracy, credibility and consistency of business information and reporting for effective decision-making; and
- standardisation of key business processes and implementation of solutions to enable and streamline capital portfolio management, tender management, travel management, fixed asset management, governance, risk and compliance, cash management, and workforce planning capabilities within Transnet.

The successful execution of the IMS 2020 Vision strategy and the provision of adequate, well-governed information management and technology capabilities is faced with the following key challenges:

- limited integrated planning, scheduling and forecasting capabilities across Transnet;
- disparate business processes across Transnet's value chain;
- limited visibility of the end-to-end value chain;
- multiple conflicting needs of the various Group customers;
- the difficulty in implementing value added customer service delivery;
- KPI monitoring as it relates to volume monitoring and reporting;
- lack of innovation due to high reliance and dependency on legacy business applications and obsolete technology; and
- lack of real-time information available for decision-making, which hinders management's decision-making capabilities.

Due to the numerous challenges highlighted above and the inability to execute against commitments, IMS has not been able to appropriately support the Group as intended under the IMS 2020 Vision strategy. As a result, Transnet has appointed an industry expert to assist in formulating and implementing an IMS turnaround plan which focuses on:

- assessing the skills and expertise of current IMS resources to deliver against specific targets;
- implementing appropriate processes to enable IMS to support and improve the Transnet business; and
- assessing the current system capabilities and identifying, as well as implementing, new systems that will better support and improve the business.

IMS turnaround plan is designed to work in conjunction with the improvement programme.

The benefits of this turnaround and improvement programme for Transnet include:

- value-added customer service delivery through supply visibility;
- availability of data and ease of access;
- improved ICT service delivery;
- operating “best-in-class” ICT environment;
- building and retaining a talented and committed ICT workforce;
- improved ICT security and governance; and
- improved enterprise architecture capability.

As a result, Transnet believes it will meet the objectives of the IMS 2020 Vision strategy, which will ultimately assist the Group in fulfilling the MDS.

Insurance

Transnet’s operations are subject to normal hazards of operational and geographic risks, including accidents, fire and weather-related perils. Transnet maintains insurance policies necessary to reasonably protect against the financial impact arising from unexpected events when the amount of the potential loss would be significant enough to prevent normal business operations. The purchase of these policies is coordinated by an internal insurance department, with applicable limits, coverage, scope and deductibles that Transnet believes are reasonable and prudent after all means of controlling or preventing the risk have been considered. Transnet cannot, however, assure purchasers of the Notes that this insurance will be adequate to protect it from expenses related to potential future claims for personal injury, property damage and business interruption or that these levels of insurance will be available in the future at commercially reasonable prices. Transnet does not insure against certain risks to the extent that such risks are uninsurable or because coverage is unavailable at what Transnet considers to be appropriate price levels.

Litigation and Other Proceedings

Transnet is involved in legal proceedings, including commercial arbitration, employment matters, disputes with customers, concessionaires and partners, as well as general commercial disputes that arise from time to time in the ordinary course of business.

Ngqura Harbour Contractors vs. Transnet National Ports Authority

Ngqura Harbour Contractors was awarded a tender by Transnet National Ports Authority to quarry stone and construct rubble mound breakwaters in the Port of Ngqura. Ngqura Harbour Contractors lodged a claim in the amount of approximately R134 million arising out of encountering adverse subsurface conditions of “higher rock strength’ in the quarry site during the execution of the contract. Ngqura Harbour Contractors claims that these unforeseen conditions resulted in it incurring greater expenses than anticipated during the tender process.

Transnet is defending the claim and the matter was argued before the Dispute Adjudication Panel in February 2010. The Dispute Adjudication Panel ruled in favour of Ngqura Harbour Contractors and Transnet National Ports Authority was ordered to pay a sum of R91 million. Both Ngqura Harbour Contractors and Transnet National Ports Authority were dissatisfied with the outcome, which was then referred to arbitration, as per the contract. The parties were also exploring settlement. However Transnet National Ports Authority, to protect its interests, lodged an appeal against the Dispute Adjudication Panel decision. Ngqura Harbour Contractors filed its statement of claim on 28 October 2011. Transnet paid Ngqura Harbour Contractors R91 million in return for a guarantee that Ngqura Harbour Contractors would refund Transnet in the event that the arbitration committee awarded a lower amount to Ngqura Harbour Contractors when the ruling is ultimately made.

Transnet National Ports Authority has filed an amended plea and will make a decision whether to negotiate a settlement of the claim or to proceed to arbitration once Ngqura Harbour Contractors has filed its reply to the amended plea.

Transnet vs Choice Technologies (Pty) Ltd ("Choice Technologies")

Transnet initiated arbitration proceedings against Choice Technologies in which it is claiming the repayment of an amount of R157 million it paid for installation of train tracking devices which were later found to be defective and which defects Choice Technologies failed to remedy. Choice Technologies has since gone into liquidation and Transnet will be lodging its claim with the liquidators as soon as the final liquidation and distribution account has been released to avoid contributing to liquidation costs which Transnet would otherwise be obliged to pay under South African law should Transnet lodge its claim before the final liquidation and distribution account has been released and should Choice Technologies' assets not be sufficient to cover such costs.

Transnet vs Abalozi Risk Advisory Services (Pty) Ltd ("Abalozi")

Transnet is claiming restitution of the sums of money paid to Abalozi in the sum of R96 million under a contract that is believed to have been void *ab initio* for various misrepresentations and instances of non-compliance by Abalozi.

Abalozi filed a counter claim in the sum of R488 million for loss of business which they attribute to Transnet's cancellation of their security contract and publication of the findings of the disciplinary hearing of two Transnet former employees. This matter was scheduled for a hearing on 14 August 2012, but was removed from the roll by agreement between the parties. Members of the Transnet Board Risk Committee consulted with counsel to determine whether litigation should proceed and a decision on whether to proceed with this matter will be taken upon further consideration by the Board.

Request for class action suit

Two Transnet pensioners have sought leave to constitute a class action and to be appointed as the representatives of the class for the purposes of instituting a claim against Transnet and six other respondents. The pensioners' claim states that section 16 of the Legal Succession Act, read with section 12 of the Transnet Pension Fund Act, 1990, imposed a legal duty on Transnet to pay a "legacy debt" to its pensioners that Transnet has failed or refused to comply with. Transnet believes the pensioners' interpretation of section 16 is incorrect as the legacy debt is not in actuality a debt, but a limit on the Government's guarantee of pensions, determined under terms of section 16(2) of the Legal Succession Act. Transnet believes the claim has no merits.

Public Protector complaint regarding Transnet's purchase of 95 locomotives from China South Railway ("CSR")

Transnet received a letter from the office of the Public Protector advising about a complaint that has been lodged against Transnet regarding the award of a tender by Transnet to CSR for the supply of 95 locomotives to Transnet for a total contract value of approximately R2.7 billion. The complaint alleges that when the tender was awarded, Transnet ought to have known that CSR had provided fault-prone locomotives to the Namibian Government, which locomotives were discontinued from operation due to faults—costing the Namibian government R260 million in fruitless expenditure. TransNamib, the railway parastatal of Namibia, issued a press statement refuting the allegations of fault with the locomotives as unfounded.

NERSA NMPP Cost Review

NERSA has appointed Cresco Project Finance (Pty) Ltd ("**Cresco**") as a technical expert to advise NERSA on the prudency of Transnet's asset acquisition in the construction of the NMPP, as a result of the project exceeding budgeted cost. Cresco is therefore embarking on a study in respect of the NMPP assets. Transnet has provided Cresco with documentation to enable them to commence their review process.

MANAGEMENT

Board of Directors

The Board of Directors has delegated the responsibility for running the operations of Transnet to the Group Chief Executive. The Board of Directors has reserved responsibility for the following matters: recommending amendments to the memorandum of incorporation of Transnet to its Shareholder, approving Transnet's strategy, annual Corporate Plans, budgets and borrowing strategy, approving the annual financial statements and interim reports, and evaluating the performance of the Group Chief Executive.

As of 25 June 2013, the Board of Directors is comprised of thirteen directors, of whom twelve are independent non-executive directors, including the Chairperson. Transnet's memorandum of incorporation provides that there shall be no less than ten and no more than fourteen directors, of whom at least twelve must be non-executive directors and two must be executive directors. There is currently one vacant seat. Eleven of these directors, including the Chairperson, believe that they are independent non-executive directors free from any business relationship that could hamper their objectivity or independent judgement on the business of Transnet.

At the annual general meeting on 25 June 2013, the Company's new memorandum of incorporation was approved.

The following table sets forth the thirteen members of the Board of Directors at the date of this Base Prospectus:

Name	Year of Birth	Current Position	Member of Board Since[1]
Mr. Mafika E. Mkwanazi	1954	Non- Executive Chairperson	2010
Mr. Brian Molefe	1966	Executive Director and Group Chief Executive	2011
Mr. Anoj Singh	1973	Executive Director and Group Chief Financial Officer	2009
Ms. Nunu R. Njeke	1963	Non-Executive Director	2006
Mr. Israel B. Skosana	1953		2010
Ms. Nazmeera Moola	1977	Non-Executive Director	2010
Mr. Michele A. Fanucchi	1964	Non-Executive Director	2010
Ms. Doris L.J. Tshepe	1973	Non-Executive Director	2010
Ms. Ellen Tshabalala	1958	Non-Executive Director	2010
Mr. Iqbal M. Sharma	1967	Non-Executive Director	2010
Mr. Harry D. Gazendam	1954	Non-Executive Director	2010
Ms. Yasmina Forbes	1959	Non-Executive Director	2011
Ms. Nomavuso P. Mnxasana	1956	Non-Executive Director	2013

Transnet's non-executive directors are elected on a three-year term, renewable annually at the annual general meeting.

The Group Chief Executive is Mr. Brian Molefe, who was appointed on 17 February 2011.

The business address of each director is 47th Floor, Carlton Centre, 150 Commissioner Street, Johannesburg 2001, South Africa.

As at the date of this Base Prospectus, Transnet is not aware of any potential conflicts of interest between the duties of the directors (listed below) to Transnet and their private interests or duties.

Mr. Mafika E. Mkwanazi

Mr. Mkwanazi assumed the role of Chairperson of the Board of Directors and non-executive director on 13 December 2010. He serves as a non-executive director of the South African Bureau of Standards, Stefanutti & Stocks Holdings, Before the Wind Investments 53, Marble Gold 237 (Pty) Ltd., MLZZ Family Trust, Mkwanazi Investment Holdings (Pty) Ltd., Ukhamba Bricks and Quarry (Pty) Ltd., Born Free Investments 402, Hulamin Ltd. and Eskom Holdings SOC Ltd. Mr. Mkwanazi also serves as a non-executive chairman of Hulamin Ltd. Mr. Mkwanazi brings more than 25 years of management experience to Transnet and has previously held a number of directorships and senior management positions, including appointments as a non-executive director of Nedbank Ltd., MSC Logistics Limited and the Industrial Development Corporation of South Africa, as chief executive officer of Metrorail, and as chairman of South African Airways, Propnet, V&A Waterfront Holdings and Spoornet. He was also formerly an executive director of Transnet from 1996 to 2001 and the Chief Executive Officer of Transnet from 2001 to 2003. Mr. Mkwanazi holds a Bachelor of Science degree in Mathematics and Applied Mathematics from the University of Zululand, a degree in Electrical Engineering from the University of KwaZulu-Natal (formerly the University of Durban Westville), a Management Development diploma from the University of the Witwatersrand and a diploma in Strategies for Successful Management from Wharton University.

Mr. Brian Molefe

Mr. Molefe was appointed as the Group Chief Executive and executive director of the Board of Directors with effect from 17 February 2011, and his delegation of authority from the Board of Directors was conferred on 3 March 2011. Mr. Molefe currently serves on the board of directors of Karibu Holdings (Pty) Ltd, Karibu Capital (Pty) Ltd, Karibu Real Estate Investments (Pty) Ltd and Lion of Africa Fund Managers. Further, he serves as trustee of the B and PPJ Trust. Mr. Molefe brings 20 years of management experience to Transnet and has previously held a number of executive management positions and directorships, including appointments as chief executive officer of the Public Investment Corporation, deputy director-general of the Asset and Liability Management division of the National Treasury of South Africa, chief director of the Asset Management division of the National Treasury of South Africa, and director of Inter-Governmental Relations at the National Treasury of South Africa. Mr. Molefe holds a Master of Business Leadership from the University of South Africa, a Post Graduate Diploma in Economics from London University, School of Oriental and African Studies and a Bachelor of Commerce from the University of South Africa majoring in Accounting and Economics. Mr. Molefe also graduated from the Programme for Young Global Leaders, Kennedy School of Government at Harvard University, from the Advanced Management Programme at Harvard Business School, and from the Executive Programme at Wharton Business School, University of Pennsylvania.

Mr. Anoj Singh

Mr. Singh is currently Group Chief Financial Officer and has been an executive director of the Board of Directors since March 2009. He also serves on the board of directors of Freight Logistics International Inc., Owner-Driver Management (Pty) Ltd., Transhold Properties (Pty) Ltd., Protekon (Pty) Ltd., Crosskeys Security Services (Pty) Ltd., Comazar (Pty) Ltd. and Classic Number Trading 120 (Pty) Ltd. He is a member of Even Grand Trading 173 CC, and Spring Green Trading 199. He served as the Senior Manager of Corporate Financial Services of Transnet Freight Rail from 2003 to 2005 and as Transnet's General Manager of Group Finance from 2005 to 2009. Mr. Singh was appointed as Group Chief Financial Officer on 1 July 2012.

Mr. Singh graduated with a Bachelor of Accountancy and a Postgraduate Diploma in Accountancy from the University of KwaZulu-Natal (formerly the University of Durban-Westville) and brings more than 12 years of financial experience to Transnet. He is also a qualified chartered accountant.

Ms. Nunu R. Njeke

Ms. Njeke was appointed as an independent non-executive director of the Board of Directors in May 2006. Ms. Njeke serves on the board of directors of Ogilvy South Africa, Kantar South Africa (Pty) Ltd, Ntinta Investment and Ogilvy & Mather. She has been chief executive officer of Ogilvy South Africa since 2005 and retired from the position in 2012 to become the executive chairman. Ms. Njeke graduated with a Bachelor of Arts degree from the University of Swaziland, a Masters of Business Administration degree from Morgan State University, Maryland, USA, and a diploma in Advertising from AAA School of Advertising.

Mr. Israel B. Skosana

Mr. Skosana was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Mr. Skosana currently serves as shareholder and executive chairman of Kapela Investments Holdings (Pty) Ltd. and Kapela Holdings (Pty) Ltd. and as a non-executive director of a number of the former's investees. Mr. Skosana also serves as a non-executive chairman of BDO Risk Advisory Services (Pty) Ltd, BDO South Africa Advisory Services (Pty) Ltd, CQS Performance Solutions (Pty) Ltd, CQS Technology Holdings (Pty) Ltd, and XON Systems (Pty) Ltd. Mr. Skosana also currently serves on the board of directors of ATC South Africa Investment Holdings (Pty) Ltd, CQS Investment Holdings (Pty) Ltd, FDB Eiendomsbeleggings cc, Pelta (Pty) Ltd and the University of Pretoria.

Mr. Skosana has a Bachelor of Commerce degree from the University of the North, a Bachelor of Accounting Science (Honours) degree from the University of South Africa, and a Certificate in the Theory of Accountancy from the University of South Africa. Mr. Skosana also graduated from the Advanced Management Programme at Harvard Business School. He is a qualified chartered accountant, a member of the South African Institute of Chartered Accountants and a fellow of the Institute of Directors.

Ms. Nazmeera Moola

Ms. Moola was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Ms. Moola currently serves as an independent director of Mercedes-Benz South Africa (Pty) Ltd. and Mercedes-Benz South Africa Financial Services. Ms. Moola graduated from the University of Cape Town with a Bachelors of Business Science and is also a CFA Charter holder.

Mr. Michele A. Fanucchi

Mr. Fanucchi was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Mr. Fanucchi currently serves as an executive at Barloworld Logistics. Mr. Fanucchi obtained a Graduate Diploma in Engineering, a Bachelor of Science in Engineering (Mechanical) Industrial, and a Master of Science in Engineering Management from the University of the Witwatersrand.

Ms. Doris L.J. Tshepe

Ms. Tshepe was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Ms. Tshepe currently serves as a managing director of Cheadle Thompson & Haysom Incorporated and serves on the board of directors of Cheadle Thompson & Haysom Legal Administration Trust, Boardroom Alliance (Pty) Ltd., Boardroom Alliance Black Equity Trust, and the National Children's Rights Committee. Ms. Tshepe graduated from the University of the North with a Baccalaureus Procurationis degree, the University of KwaZulu-Natal (formerly the University of Durban Westville) with a Bachelor of Law, and the University of the Witwatersrand with a Masters in Tax Law. Ms. Tshepe is a qualified attorney of the High Court of South Africa, a notary and a conveyancer.

Ms. Ellen Tshabalala

Ms. Tshabalala was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Ms. Tshabalala currently serves as a member of the board of trustees for the Sishen Iron Ore Company Community Development Trust and a chairperson of the South African Broadcasting Corporation. She is also a Transnet Second Defined Benefit Fund trustee. Ms. Tshabalala holds a Bachelors of Commerce degree in Economics and Industrial Psychology and a Post Graduate Diploma in Labour Relations from the University of South Africa. Further, she obtained an International Licentiate Diploma in Banking from the Institute of Bankers of South Africa.

Mr. Iqbal M. Sharma

Mr. Sharma was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Mr. Sharma currently serves as executive chairman of Issar Investment Holdings (Pty) Ltd and as director of Issar Capital (Pty) Ltd, Daqo South Africa (Pty) Ltd, Elgasolve (Pty) Ltd, GMT Concepts (Pty) Ltd and Nulane Investments 204 (Pty) Ltd. He served previously as a member of the board of directors of the Export Credit Insurance Corporation of South Africa, the Immigration Advisory Board and the Proudly South African campaign. He was previously deputy director general at the Department of Trade and Industry in South Africa. Mr. Sharma obtained his Bachelor of Science (Honours) in Economics and Business Administration from the University of Wisconsin, Oshkosh.

Mr. Herman D. Gazendam

Mr. Gazendam was appointed as an independent non-executive director of the Board of Directors on 13 December 2010. Mr. Gazendam was an executive director of Toyota South Africa Ltd and Toyota SA Motors (Pty) Ltd and is the chairperson of the Transnet Second Defined Benefit Fund. He was also previously chairman of the National Association of Automobile Manufacturers of South Africa. Mr. Gazendam obtained a Bachelor of Arts degree from the University of Pretoria, as well as a Baccalaureus Procurationis degree and a Diploma in Labour Relations from the University of South Africa. Mr. Gazendam further graduated from the Executive Development Programme at the University of California, Los Angeles, USA and the Wharton Business School, University of Pennsylvania, with an Advanced Executive Development Programme.

Ms. Yasmina Forbes

Ms. Forbes was appointed as an independent non-executive member of the Board of Directors on 24 June 2011. Ms. Forbes brings 25 years of ICT industry experience to Transnet and currently serves as a non-executive director of YF & Associates. Ms. Forbes is also a Transnet Second Defined Benefit Fund trustee. Ms. Forbes graduated with a Masters of Business Administration degree from Bond University and diplomas in Marketing Management and Public Relations Practitioner from Damelin College.

Ms. Nomavuso P. Mnxasana

Ms. Mnxasana was appointed as an independent non-executive member of the Board of Directors on 31 January 2013. Ms. Mnxasana brings 25 years of accounting and risk management experience to Transnet and currently serves as a non-executive director of Awca Investment Holdings, Landbank Insurance Service SOC Limited, Landbank Life Insurance Company, Nedbank Limited, Nedbank Group, Noma Namuhla Trading and Projects, Pareto, Winhold Limited Group, Grundco Investment, Gundle Plastic Group, Inmico Investment, Inmins Trading and JSE Limited.

Ms. Mnxasana graduated with a Bachelor of Accounting Science (Honours) from the University of South Africa. She is also a qualified chartered accountant.

Senior Management

The following table sets forth certain information on the members of Transnet's senior management as at the date of this Base Prospectus:

Name	Year of Birth	Current Position	Year Joined Transnet(1)
Mr. Brian Molefe	1966	Group Chief Executive	2011
Mr. Anoj Singh(2)	1973	Group Chief Financial Officer	2003
Mr. Khomotso C.Phihlela	1961	Group Executive: Commercial	2003
Mr. Charl A. Möller(3)	1951	Group Executive: Transnet Capital Projects	1976
Mr. Tau Morwe	1956	Chief Executive: Transnet National Ports Authority	1997
Mr. Richard Vallihu	1964	Chief Executive: Transnet Engineering	1995
Mr. Karl-Bart X. T. Socikwa	1969	Chief Executive: Transnet Port Terminals	1995
Mr. Mark D. Gregg-Macdonald	1960	Group Executive: Planning and Monitoring	2001
Mr. Siyabonga I. Gama	1967	Chief Executive: Transnet Freight Rail	1994
Ms. Nonkululeko Sishi	1968	Group Executive: Human Resources	2012
Ms. Nkuli J. Mabandla(4)	1974	Group Executive: Group Legal Services	2012
Ms. Raisibe Lepule(5)	1976	Group Executive: Results Management Office	2012
Ms. Sharla Pillay(6)	1974	Chief Executive: Transnet Pipelines	2003
Ms. Disebo C. Moephuli(7)	1964	Chief Risk Officer	2006
Ms. Mmathabo Sukati(8)	1970	Chief Audit Executive	2013

(1) The following persons resigned from senior management in 2012: Ms. Virginia C. Dunjwa and Ms. Moira Moses. The following person resigned from senior management in 2013: Mr. Roderick Wolfenden.
(2) Appointment effective from 1 July 2012.
(3) Appointment effective from 1 October 2012.
(4) Appointment effective from 1 June 2012.
(5) Appointment effective from 1 April 2013.
(6) Appointment effective from 1 October 2012.
(7) Appointment effective from 1 February 2013.
(8) Appointment effective from 1 July 2013.

Information regarding the senior management of the Group as at the date of this Base Prospectus is set out below to the extent that they are not members of the Board of Directors as described above.

Transnet is not aware of any potential conflicts of interest between the duties to Transnet of the senior managers listed below and their private interests or duties.

The business address for each member of senior management is 47th Floor, Carlton Centre, 150 Commissioner Street, Johannesburg 2001, South Africa.

Mr. Khomotso Phihlela

Mr. Phihlela was appointed as the Chief Executive Officer of Transnet National Ports Authority in February 2005 and is currently Group Executive of Commercial. Mr. Phihlela currently serves on the board of directors of Marine Data Systems (Pty) Limited, B2B Africa (Pty) Limited and Tru-South Group. He is a member of Kepaso Finca and a trustee of Phihlela Family Trust. Mr. Phihlela has more than eight years of experience with Transnet including Transnet's Executive of Portfolio Management, as well as experience in other companies including as managing director of Telcon and as operations executive director of African Bank Limited. Mr. Phihlela studied Engineering at the University of Cape Town and Executive Development at Northwestern University and obtained a Masters of Business Administration from the University of the Witwatersrand.

Mr. Charl A. Möller

Mr. Möller was appointed as the Chief Executive Officer of Transnet Pipelines in September 1992. Mr. Möller has 35 years of experience with Transnet, including as senior planning engineer in the previous business unit Spoornet (now Transnet Freight Rail) and as director at the previous business unit Autonet. Mr. Möller graduated with a Bachelor of Science degree in Civil Engineering from the Stellenbosch University and he also holds a Bachelor of Commerce (Honours) in Transport Economics from the University of Johannesburg. Mr. Möller, previously Chief Executive of Transnet Pipelines, has been appointed as Group Executive of Transnet Capital Projects and is tasked with the responsibility for the strategic direction of Transnet Capital Projects, which is Transnet's specialist engineering and project management unit. His focus will be the completion of the construction of the NMPP, which will carry petroleum from the coast to Gauteng. The appointment was effected in October 2012.

Mr. Tau Morwe

Mr. Morwe was appointed as the Chief Executive of Transnet Port Terminals in May 2000. In November 2009, Mr. Morwe was transferred to the position of Chief Executive of Transnet Freight Rail in an acting capacity and is currently Chief Executive of Transnet National Ports Authority. Mr. Morwe has more than 25 years of experience, including as a board member on several bodies, such as KwaZulu-Natal Trade and Investment, Commercial Cold Storage (Pty) Limited and Bulk Connections. In addition, he has worked in senior positions for Nampak Management Services, Shell South Africa and Apron Services. Mr. Morwe graduated from Howard University where he studied Economics and holds qualifications for an Advanced Programme for Chief Executive Officers and an Executive Programme in Logistics and Transportation Management at the National University of Singapore and the Chartered Institute of Logistics and Transport in Singapore, respectively.

Mr. Richard Vallihu

Mr. Vallihu was appointed as the Chief Executive of Transnet Engineering in 2007. Mr. Vallihu has more than 14 years of experience, including as a project manager at Standard Bank. He has held various positions in the Company, including IT manager, business development manager and general manager of strategy and marketing. Mr. Vallihu is also an activist for community work assisting on the World Alliance Civicus. Mr. Vallihu graduated from Loughborough University of Technology, UK, having attained a Bachelor of Science (Honours) degree, as well as from the University of Southern Queensland, Australia, where he obtained a Masters of Business Administration. He has also graduated from the Advanced Management Program at Harvard Business School.

Mr. Karl-Bart X.T. Socikwa

Mr. Socikwa was appointed as a member of the Group Executive Committee as the Head of Restructuring of Transnet's Commercial division in 2007. Mr. Socikwa was then appointed as Group Executive of Commercial in January 2008. In November 2009, Mr. Socikwa was transferred to the position of Chief Executive of Transnet Port Terminals in an acting capacity until his confirmation in 1 April 2011. In addition, Mr. Socikwa currently serves as member of the board of directors of Investec Bank Limited, RAM Hand-to-Hand Couriers, The Brand Union SA (Pty) Limited, Southern Palace Investments, the National Advisory Board of the Salvation Army, Rhodes University Board of Governors, and Proudafrique Trading 66 (Pty) Limited. Mr. Socikwa has more than 13 years of experience, including with Deneys Reitz, Coopers & Lybrand, and Kelly Stores Pty Limited. Mr. Socikwa graduated from Rhodes University with Bachelor of Commerce and Bachelor of Law degrees.

Mr. Mark D. Gregg-Macdonald

Mr. Gregg-Macdonald was appointed as Group Executive of Freight Corridors in 2008, having joined Transnet in 2001 as the Chief Financial Officer for Transnet Port Terminals. In 2009, Mr. Gregg-Macdonald was also appointed to act as the Group Executive of Commercial. On 1 April 2011, Mr. Gregg-Macdonald was appointed as Group Executive: Planning and Monitoring. Mr. Gregg-Macdonald graduated from the University of South Africa with a Bachelor of Accounting Science (Honours) degree and qualified as a chartered accountant (SA) in 1985. He has held executive positions in the manufacturing, construction and cellular communications industries.

Mr. Siyabonga I. Gama

Mr. Gama was appointed as the Chief Executive of Transnet Freight Rail in May 2005. He was previously Chief Executive of Transnet National Ports Authority. In addition, Mr. Gama currently serves on the board of directors of Italtile Limited and Mafumbuka Investment Holdings, and is a trustee to the Phithikeza Trust. Mr. Gama is also chairman of the Centre for Logistic and Transport at the University of Johannesburg. Mr. Gama has more than 20 years of management experience, including with Standard Bank as a consumer manager. Mr. Gama graduated from the University of Swaziland where he received a Bachelor of Commerce degree and a Certified Associate of the Institute of Bankers. He also attended the City University of New York's Advanced Executive Programme, the Gordon Institute of Business Science's Global Leadership Programme, and Singapore University's Port Manager Programme.

Ms. Nkuli J. Mabandla

Ms. Mabandla was appointed on 1 June 2012 as Transnet's Chief Legal Counsel. Ms. Mabandla serves in the Group Executive Committee as Group Executive: Legal Services responsible for all legal aspects of the business, including Group Legal: Compliance and Secretariat. She is also responsible for Corporate and Public Affairs.

Ms. Mabandla was group executive of legal and regulatory at Kagiso Media Limited where she represented the company on the board of directors of some of the Republic of South Africa's leading commercial radio stations, including Kaya FM in Gauteng, Gagasi FM in Durban, and Heart in Cape Town. Ms. Mabandla served as a partner and director at the law firm Edward Nathan Sonnenbergs. Ms. Mabandla is also the founding member of the law firm Mahlangu-Nkomo-Mabandla-Ratshimbilani, which later merged with Edward Nathan Sonnenbergs. Ms. Mabandla holds a LLM, LLB and BA Law degree from the University of the Witwatersrand.

Ms. Nonkululeko Sishi

Ms. Sishi was appointed as Group Executive of Human Resources in January 2012. Ms. Sishi has 21 years of human resources experience. Ms. Sishi graduated from the University of Zululand, where she obtained a degree in Bachelor of Administration. She further obtained a certificate in Labour Law and a Post Graduate Diploma in Business Management from the University of KwaZulu-Natal (formerly the University of Durban Westville). Ms. Sishi also has a certificate in Group Process Consultation from the University of South Africa.

Ms. Raisibe Lepule

Ms. Lepule is the Group Executive of the Results Management Office with effect from 1 April 2013. She was previously appointed as a member of the Group Executive Committee as Group Executive: Transnet Property on 1 August 2012, where she was responsible for Transnet's property portfolio in its entirety. She is currently a non-executive director of South African Airways (SAA) Soc Ltd. Ms. Lepule was previously the deputy director-general responsible for transport enterprises at the Department of Public Enterprises. She also worked as the chief director and business development manager at Viamax, Transnet's fleet management subsidiary, which has since been sold. Ms. Lepule holds a Masters degree in Maritime Studies from Stellenbosch University, as well as a Bachelor of Administration degree and a post graduate degree in Economics from the University of Kwazulu-Natal.

Ms. Sharla Pillay

Ms. Pillay is the Chief Executive of Transnet Pipelines and was appointed in October 2012. Ms. Pillay was a management consultant for Deloitte in Durban, following which she became the Corporate Financial Accountant of Transnet Port Terminals in April 2003. She was then promoted to Executive Manager in Finance of Transnet Port Terminals in October 2005. In October 2007 she was appointed as Chief Financial Officer of Transnet Pipelines. In April 2009, Ms. Pillay was appointed as Chief Financial Officer for Transnet Port Terminals. Following this, she became the General Manager for Finance, ICT and Capital Procurement of Transnet Port Terminals from May 2011 to September 2012. Ms. Pillay graduated with a Bachelor of Accounting (Honours) degree from the University of KwaZulu-Natal and is also a qualified chartered accountant.

Ms. Disebo C. Moephuli

Ms. Moephuli was appointed the new Chief Risk Officer on 1 February 2013. Prior to this appointment, Ms. Moephuli was Transnet's Group Treasurer from September 2006 to January 2013 and was responsible for the Company's funding, financial risk management, liquidity management and general treasury functions. Ms. Moephuli has 20 years' experience in financial markets. She is currently also non-executive director and a member of the board risk committee of Nampak Ltd. Her previous positions prior to joining Transnet include the Association of Corporate Treasurers of Southern Africa as a director, the South African Reserve Bank as head of financial markets, the DBSA where she served in various positions including Treasurer and Rand Merchant Bank and First National Bank where she worked as a trader in the money market and capital markets. Ms. Moephuli holds a Masters of Business Administration (Finance) from Dalhousie University in Canada and a Bachelor of Arts (Economics and Statistics) from the National University of Lesotho.

Ms. Mmathabo Sukati

Ms. Mmathabo Sukati was appointed Chief Audit Executive on 1 July 2013 and has worked at Transnet since 2008. Prior to this, Ms. Sukati served in various roles at PricewaterhouseCoopers including Partner/Director, Associate Director and Senior Manager. Ms. Sukati is currently also Senior Vice President and Chairperson of the Audit Committee at the Institute for Internal Auditors in South Africa, where she served as a member of the board from 2009 to 2011, as well as a recognised speaker in the Internal Audit Profession and she has served as a member of the board of the Black Management Forum. Ms. Sukati holds a MBA from the Gordon Institute of Business Science and a Bachelor of Arts (Honours) degree in Communications from the University of Cape Town. Ms. Sukati is also a qualified chartered accountant and obtained her certifications as an internal auditor and in control self-assessment in September 2008 and December 2008, respectively.

Compensation

The following table sets out the remuneration for the Group's senior management for Financial Year 2013, with comparative total remuneration figures for Financial Years 2011 and 2012:

Executive remuneration—guaranteed

Name	Salary	Post-retirement benefit fund contributions	Other contributions	Other payments	Total 2013	Total 2012	Total 2011
			(R thousand)				
Mr. Brian Molefe(1)	5,495	504	—	6	**6,004**	6,000	643
Mr. Christopher Wells(3)	—	—	—	—	**—**	—	4,596
Ms. Virginia C. Dunjwa(4)	848	78	—	199	**1,125**	2,780	2,617
Mr. Siyabonga I. Gama	4,137	321	—	79	**4,537**	4,459	10,129
Mr. Mark D. Gregg-Macdonald	2,575	274	—	24	**2,873**	2,925	2,622
Mr. Vuyo Kahla(5)	—	—	—	—	**—**	—	2,911
Mr. Pradeep Maharaj(5)	—	—	—	—	**—**	664	3,567
Mr. Charl A. Möller	2,778	241	26	2	**3,047**	2,993	2,852
Mr. Tau Morwe	3,296	241	6	151	**3,694**	4,136	3,507
Ms. Moira Moses(4)	1,360	69	8	262	**1,699**	3,451	3,451
Mr. Khomotso C.Phihlela	3,060	223	—	52	**3,335**	3,284	3,320
Ms. Zola Stephen(5)	—	—	—	—	**—**	6,940	754
Mr. Anoj Singh(1)	3,231	296	—	2	**3,529**	2,264	2,152
Mr. Karl-Bart X. T. Socikwa	3,318	331	—	127	**3,776**	4,218	3,306
Mr. Richard Vallihu	3,264	281	—	8	**3,553**	3,545	3,344
Ms. Nonkululeko Sishi	2,536	242	—	2	**2,780**	695	—
Ms. Disebo C. Moephuli(2)	407	43	—	—	**450**	—	—
Ms. Sharla Pillay(2)	961	88	—	19	**1,068**	—	—
Ms. Nkuli J. Mabandla(6)	1,807	192	—	1	**2,000**	—	—
Ms. Raisibe Lepule(6)	1,674	178	—	1	**1,853**	—	—
Total	40,746	3,602	40	935	**45,323**	48,354	49,771

(1) Group Chief Executive and also a member of the Board of Directors.
(2) Appointed during Financial Year 2013.
(3) Resigned from the Board of Directors on 15 December 2010, but remained with the Company until 31 March 2011.
(4) Resigned during Financial Year 2013.
(5) Resigned in Financial Year 2012.
(6) Employed during Financial Year 2013.

In addition to the guaranteed remuneration above, the following executives received an acting allowance during Financial Year 2013:

	Total 2013	Total 2012	Total 2011
		(R thousand)	
Mr. Mark D. Gregg-Macdonald	—	—	376
Mr. Mafika E. Mkwanazi(1)	—	—	833
Mr. Tau Morwe	—	—	500
Mr. Anoj Singh(2)	422	1,689	1,544
Mr. Karl-Bart X. T. Socikwa	—	—	461
Mr. Christopher Wells	—	—	608
	422	**1,689**	**4,322**

(1) The Board of Directors delegated the powers, duties and authority of the Group Chief Executive to the Chairman of the Board of Directors, with effect from 16 December 2010 until 2 March 2011.

(2) Confirmed into the position of Group Chief Financial Officer during the year and acting allowance terminated.

In addition to the above amounts, Group executives are eligible for performance-based bonuses at the discretion of the Board of Directors. The following table sets out the bonuses of the Group executives for Financial Year 2013, which will be paid during Financial Year 2014, with comparative total performance-based bonuses for Financial Years 2011 and 2012:

Name	Long-term incentive	Short-term incentive	Total 2013	2012	2011
			(R thousand)		
Mr. Brian Molefe(1)(2)	—	1,218	**1,218**	6,473	—
Mr. Christopher Wells(3)	—	—	**—**	—	11,671
Ms. Virginia C. Dunjwa(5)	—	—	**—**	5,102	3,961
Mr. Siyabonga I. Gama	3,583	928	**4,511**	8,305	2,510
Mr. Mark D. Gregg-Macdonald	2,349	607	**2,956**	4,892	3,753
Mr. Pradeep Maharaj(4)	—	—	**—**	—	6,317
Mr. Charl A. Möller	2,592	629	**3,221**	5,151	4,873
Mr. Tau Morwe	3,079	738	**3,817**	5,615	5,388
Ms. Moira Moses(5)	—	—	**—**	7,740	1,305
Mr. Khomotso C. Phihlela	2,771	667	**3,438**	5,759	5,103
Ms. Zola Stephen(6)	—	—	**—**	4,649	2,380
Mr. Anoj Singh(1)	1,942	802	**2,744**	5,957	4,495
Mr. Karl-Bart X. T. Socikwa	2,884	741	**3,625**	6,675	6,107
Mr. Richard Vallihu	3,041	720	**3,761**	6,841	5,894
Ms. Disebo C. Moephuli(8)	1,927	497	**2,424**	—	—
Ms. Sharla Pillay	1,467	375	**1,842**	—	—
Ms. Nonkululeko Sishi		564	**564**		
Ms. Nkuli J. Mabandla(7)	—	446	**446**	—	—
Ms. Raisibe Lepule(7)	—	319	**319**	—	—
Total	25,635	9,251	**34,886**	73,159	63,757

(1) Group Chief Executive and also a member of the Board of Directors.

(2) Appointed during Financial Year 2012, remuneration pro-rated in Financial Year 2012.

(3) Resigned from the Board of Directors on 15 December 2010, but remained with the Company until 31 March 2011.

(4) Resigned during Financial Year 2011.

(5) Resigned during Financial Year 2013.

(6) Resigned in Financial Year 2012.

(7) Employed during Financial Year 2013.

(8) Appointed during Financial Year 2013.

The compensation for the non-executive members of the Board of Directors is approved by Transnet's Shareholder Representative, the Minister of Public Enterprises, after a recommendation is made by the Remuneration, Social and Ethics Committee, and by the Board of Directors. The following table sets out the total compensation for the non-executive directors for Financial Year 2013:

Name of Board members	Salary	Other payments	Total 2013	Total 2012	Total 2011
			(R thousand)		
Ms. N.P. Mnxasana	138	—	**138**	—	—
Mr. Mafika E. Mkwanazi	999	1	**1,000**	1,000	302
Ms. Nolwazi B.P. Gcaba	156	—	**156**	633	517
Mr. Peter M. Moyo	163	—	**163**	645	413
Ms. Nunu R. Njeke	525	—	**525**	450	394
Ms. Yasmina Forbes	539	—	**539**	225	—
Mr. Michele A. Fanucchi.	450	—	**450**	450	138
Mr. Nishikant Choubey(1)	375	—	**375**	263	—
Mr. Herman D. Gazendam	564	—	**564**	550	138
Mr. Israel B. Skosana(2)	488	—	**488**	488	138
Mr. Peter M. Malungani(3)	—	—	**—**	450	138
Mr. Bongani D. Mkhwanazi	163	—	**163**	525	156
Ms. Tembakazi Mnyaka	187	—	**187**	600	156
Ms. Nazmeera Moola	450	—	**450**	450	138
Mr. Iqbal M. Sharma	488	—	**488**	450	138
Ms. Ellen Tshabalala	501	—	**501**	488	156
Ms. Doris L.J. Tshepe	506	—	**506**	450	138
Total	6,692	1	**6,693**	8,117	3,060

(1) Retired with effect from 25 July 2013.
(2) Director's fees paid to Kapela Investment Holdings (Pty) Limited.
(3) Resigned with effect from 1 April 2012.

None of the members of the Board of Directors or the senior management hold shares of Transnet or have share-based incentive plans. Employment contracts with directors and members of senior management do not provide for special benefits upon termination and they did not provide for any such benefits in Financial Years 2013, 2012 and 2011.

Corporate Governance

Transnet follows the principles of good corporate governance outlined in the King Report on Governance for South Africa, 2009 (the "**King III**"). Consistent with that report, the Board of Directors constitutes five committees: Audit; Board Risk; Remuneration, Social and Ethics; Corporate Governance and Nominations; and Board Acquisitions and Disposals. The members of these committees are independent non-executive directors.

Audit Committee: The Audit Committee mandate includes the review and approval of the Group's audit plan with internal and external audit functions.

The Audit Committee meets five times during the year and had four special meetings. It is currently chaired by Mr. Skosana, with Mr. Fanucchi, Ms. Mnxasana, Ms. Njeke and Ms. Tshabalala as members. In line with the Corporate Laws Amendment Act, 2006, the Audit Committee assesses financial risk reviews and approves the Group's audit plan (both internal and external) with its auditors after considering the proposed audit's scope and approach, its effectiveness and the audit fees.

The Audit Committee is also responsible for, among other matters: (i) receiving and reviewing reports on adequacy of capital, impairment of receivables and other assets and the determination of provisions, (ii) reviewing all accounting policies adopted by the Group and proposed changes to those policies, (iii) recommending changes to the Group's accounting policies as may be considered appropriate under IFRS, (iv) reviewing reports on any forensic investigation and ensuring implementation of appropriate action, (v) evaluating the independence and effectiveness of the internal audit function annually, and (vi) monitoring ethical conduct of the Group.

Board Risk Committee: The Board of Directors has delegated the responsibility for providing assurance on the integrity, quality and reliability of the Group's risk management to the Board Risk Committee.

The Board Risk Committee meets four times a year at the various operating sites of the Group in order to review the major risks facing operations at each site, as well as the progress achieved in improving risk management throughout the Group. The committee is currently chaired by Ms. Tshepe and its membership is made up of Ms. Forbes, Ms. Moola, Mr. Skosana and Mr. Gazendam. The committee is responsible for reporting on the quality and reliability of the Group's risk management procedures and formally reviewing the Group's risk management policies annually.

Remuneration, Social and Ethics Committee: This committee manages the Company's legal and moral obligations within its economic, social and natural environment, and guides the objectives and standards of the Company's conduct and activities. The function of the committee is to monitor the Company's activities, specifically with regard to matters relating to human, social and natural capital. The committee aims to ensure that the Company's corporate social environment, employment and BBBEE policies and standards are aligned with applicable regulatory requirements, and have due regard to the social and ethical standards and objectives of the Company. It also ensures that the succession planning policy is implemented for the members of the Group Executive Committee and the group of general managers that supports the Group Executive Committee in its committee functions.

During Financial Year 2013, there was a need to merge the Social and Ethics Committee and the Remuneration and Human Resources Committee. The merged committee was approved by the Board of Directors on 29 August 2012. This committee had to convene a number of 'special meetings' to attend to, amongst others, the appointment of the Group Chief Financial Officer and the wage negotiations. The purpose of the committee's meetings is to:

- advise the Board of Directors with regard to responsible corporate citizenship and the ethical relationship between the Company and its stakeholders, both internally and externally. The committee will manage the Company's legal and moral obligations for its economic, social and natural environment, including the objectives and standards of the Company's conduct and activities;
- oversee the ethics management programme implemented by management;
- ensure that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels in support of realising corporate objectives and to safeguard shareholder interests;
- review the design and management of salary structures, policies and incentive schemes and to ensure that they motivate sustained high performance and are linked to corporate performance;
- recommend the level of non-executive directors' fees to the Board of Directors; and
- ensure compliance with applicable laws and codes.

The Remuneration, Social and Ethics Committee meets at least three times each year and is currently chaired by Ms. Njeke. Its membership is made up of Mr. Gazendam, Mr. Fanucchi and Ms. Moola. The committee considers and approves policy frameworks and practice standards in respect of remuneration in the Group. In particular the committee is responsible for: (i) approving compulsory employee benefits applicable to all levels and categories of the Group, (ii) reviewing the design and management of salary structures, policies and incentive schemes, and (iii) recommending the level of non-executive directors' fees to the Board of Directors.

Corporate Governance and Nominations Committee: The Corporate Governance and Nominations Committee sets the criteria for the nomination of directors to the Board of Directors, the Board of Director's committees, the Transnet Second Defined Benefit Fund Board of Trustees and subsidiary boards of directors, and is responsible for ensuring that a succession planning policy is implemented in respect of non-executive directors and the Group Chief Executive. The Committee has to maintain the Company's corporate governance policies and the Corporate Governance Framework.

The committee is currently chaired by Mr. Mkwanazi and consists of Ms. Forbes, Mr. Sharma and Ms. Tshepe. In addition to establishing the criteria for the nomination of directors, the committee is responsible for ensuring that an annual assessment of the performance of the Board of Directors and a periodic review of the effectiveness of the Board of Director's committees occurs. The committee had four meetings and three special meetings in Financial Year 2013.

Board Acquisitions and Disposals Committee: The Board Acquisitions and Disposals Committee's mandate is to consider and oversee the review of Transnet's procurement and provisioning systems, monitor compliance with procurement policies and practices, monitor trends in procurement spend, consider strategic acquisitions and disposals and make consequent recommendations to the Board of Directors, and consider potential PSP models and approve acquisitions (where so delegated by the Board of Directors in accordance with the DOA). The committee is currently chaired by Mr. Sharma, with Ms. Forbes, Ms. Mnxasana, Ms. Njeke, Ms. Tshepe, and Mr. Mkwanazi as members. Due to the magnitude of the Company's investment programme, this committee meets on a monthly basis.

Group BBBEE Committee: To guide and monitor the co-development and system re-design of the BBBEE strategy, as well as the subsequent implementation and monitoring of BEE initiatives, as required under the BBBEE Act.

NMPP Governance Steering Committee: The purpose of the NMPP Governance Steering Committee is to assist the Group Executive Committee in carrying out its oversight responsibilities relating to the NMPP project. This consists of overseeing the NMPP to conclusion, with a specific focus on reputational, operational, financial, legal and regulatory risks relating to the project, and enabling appropriate reporting to the Board of Directors.

Group Result Management Office (the "Group RMO") Review Sessions: The Group RMO review sessions are designed to identify risks for the MDS delivery, including:

- reviewing the most critical MDS initiatives, focusing initially on achieving cash flow targets;
- nominating and prioritising initiatives for the committee's attention;
- providing strategic direction, taking decisions to resolve roadblocks and accelerating delivery of critical initiatives; and
- assuring the delivery of MDS objectives and targets.

OVERVIEW OF SOUTH AFRICA AND THE SOUTH AFRICAN ECONOMY

*References in this description to fiscal years are to the Republic of South Africa's fiscal year beginning April 1 and ended March 31. For example, fiscal 2013 refers to the fiscal year begun April 1, 2012 and ending March 31, 2013. Unless otherwise stated herein, references in this description to the 2012-2013 Budget are to the 2012-2013 National Budget as released in February 2013 and not as amended by the Medium Term Budget Policy Statement (the "**MTBPS**") released on October 25, 2011. References to the 2011-2012 Consolidated Budget, which includes the 2011-2012 National Budget as part thereof, shall be construed accordingly. The Issuer assumes responsibility for the accurate extraction of information, but neither the Issuer, the Dealers nor the Arranger have verified the accuracy thereof or updated the information*

Introduction

The Republic of South Africa has been an established constitutional democracy since 1994, when it held its first fully democratic national elections. The Republic of South Africa has the most developed economy in Sub-Saharan Africa, and accounts for one-third of the aggregate gross domestic product ("**GDP**") of Sub-Saharan Africa. The South African economy is diverse and supported by a well developed legal system and a sophisticated financial system. The major strengths of the South African economy are its services and manufacturing sectors, its strong physical and economic infrastructure and its abundant natural resources, including gold, platinum metals and coal.

Historically, from 1993 until 2012, the GDP growth rate averaged 3.3 per cent., reaching an all time high of 7.6 per cent. in December of 1994 and a record low of 6.3 per cent. in March of 2009. South Africa's real GDP accelerated to 3.2 per cent. in the second quarter of 2012 from 2.7 per cent. in the first quarter, driven mainly by the primary sector, which includes agriculture and mining. The 2012 MTBPS projects that South Africa's GDP growth is expected to improve over the medium term.

Following the global recession in 2008-2009 and the subsequent economic recovery in 2010, the Republic of South Africa's GDP growth slowed from a seasonally adjusted annual rate of 4.8 per cent. in the first quarter of 2011 to 1.3 per cent. in the second quarter of 2011. This was due to a contraction in manufacturing, mining and agriculture. The National Treasury projects GDP growth of 2.7 per cent. in 2013, 3.5 per cent. in 2014 and 3.8 per cent. in 2015.

As in many other economies, the National Government has taken steps to mitigate the impact of the global economic crisis on the economy through more expansionary fiscal and monetary policies and measures to support ailing industries.

The 2011 MTBPS calls for the National Government to provide about R25 billion over the next six years for a range of interventions to invigorate industrial development zones, assist enterprise investment and job creation, support the transition to a greener economy and leverage infrastructure investment and risk-sharing partnerships with the private sector. The package will include temporary mechanisms to bolster productivity and innovation in industries that have demonstrated long-term competitive potential. Funding of the package over the next three years will be contained within the available fiscal budget.

Public-sector infrastructure investment, which has increased as a share of GDP from 4.3 per cent. in 2005 to 8 per cent. in the first half of 2012, remains central to the National Government's economic development plans. The factors expected to contribute to an improved performance include expanded infrastructure investment, the activation of new electricity-generating capacity, relatively low inflation and interest rates and strong regional growth. Infrastructure projects in energy, roads, rail, telecommunications and water will ease bottlenecks and reduce costs in the rest of the economy, crowding in private investment and improving access to export markets. Complementary reforms to improve the quality of regulation and encourage increased private-sector participation will improve efficiency and lower costs in these sectors.

As a step towards sustainability, the 2012 fiscal framework is premised on a shift in the composition of government expenditure towards infrastructure investment. Moderation in the growth of public wages bill is expected to cause compensation as a proportion of non-interest spending to decline over the medium term expenditure framework (MTEF) period. A recovery in tax revenue, more moderate growth in consumption expenditure, and additional savings from goods and service budgets will mean that by fiscal 2014, the National Government will have sufficient revenue to pay for current expenditure. In general, government borrowing should be to finance investment. Priority will be given to spending that strengthens the asset base of the economy, including through capital investment, maintenance and refurbishment and building public capacity to plan and manage infrastructure.

Owing to weaker economic conditions, anticipated tax revenue for 2012/13 has been revised downwards, leading to a higher-than-projected consolidated budget deficit in the current fiscal year. The deficit is expected to narrow gradually towards 3.1 per cent. of GDP in 2015/16. Revenue is expected to grow in line with economic forecasts, remaining at about 27.5 per cent. of GDP. Real growth of non-interest expenditure is projected to average 2.9 per cent. per year over the MTEF period, below the pace of economic growth, which will enable a gradual reduction in the ratio of expenditure to GDP as the economy recovers. The primary balance is expected to narrow towards 0.4 per cent. of GDP, stabilizing the growth of debt.

Following a reduction in November 2010, the SARB's repurchase rate has subsequently remained at 5.5 per cent. The lowering of the repurchase rate was necessitated by the fall in the inflation rate from 6.1 per cent. in September 2009 to 3.4 per cent. in October 2010. The inflation rate in September was 5.5 per cent., and is expected to average 5.3 per cent. in the last quarter of 2012, 5.2 per cent. in 2013 and 5.0 per cent. in 2014.

The trade balance is expected to deteriorate as import growth outpaces export growth. Debt-service costs will continue to outpace the overall growth of expenditure. The current account deficit has widened over the past year and is expected to average 6.2 per cent. of GDP in 2013, up from 6.1 per cent. in 2012. The trade deficit narrowed from R86.1 billion in the fourth quarter of 2012 to R78.2 billion in the first quarter of 2013, and net transfer payment nearly doubled as a share of GDP due to an increase in net customs revenue payments to the South African Customs Union. Export volumes contracted at an annual rate of 6.3 per cent. in the second quarter of 2012 after falling by 1.5 per cent. in the first quarter of 2012.

Notwithstanding the acceleration in global economic growth and a concomitant increase in world trade volumes in the second quarter of 2013, South African exporters did not benefit notably from the somewhat more favourable global economic environment. In fact, the country's trade deficit, which narrowed in both the fourth quarter of 2012 and the first quarter of 2013, widened again in the second quarter as export revenue was stifled by lower international commodity prices and low growth in the physical quantity of non-gold exports. As a ratio of gross domestic product, the trade deficit consequently widened from 2.4 per cent. in the first quarter of 2013 to 2.9 per cent. in the second quarter of 2013. Simultaneously, the shortfall on the services, income and current transfer account also widened, reflecting, *inter alia*, the base effect resulting from high dividend receipts in the first quarter of 2013. As a result, the deficit on the current account of the balance of payments deteriorated to 6.5 per cent. of South Africa's gross domestic product in the second quarter of 2013.

Global economic growth improved slightly in the second quarter of 2013 and was significantly higher than the rates of increase in output registered in the four preceding quarters. The improvement was visible in both the advanced and the emerging economies, and in part reflected sustained policy efforts directed at generating greater traction in the economic recovery. While governments in some parts of the world continued with programmes to reduce fiscal stimulus, monetary policy in the main advanced economies remained highly expansionary in the first half of 2013 through both low policy interest rate settings and quantitative easing measures.

In May 2013 the chairman of the U.S. Federal Reserve signalled plans to start tapering off the quantitative easing programme. This announcement triggered a strong reaction in financial markets worldwide, with bond yields rising, share prices declining and some emerging-market currencies, including the Rand, depreciating significantly; though on 18 September 2013, the U.S. Federal Reserve indicated that it would not initiate such tapering in the short term. Substantial uncertainty regarding the path of the quantitative easing programme remains, and it is unclear whether financial market anticipation of tapering and the associated tightening in financial market conditions that may result might deter the U.S. Federal Reserve from tapering again. International prices of a range of commodities declined in the second quarter of 2013, due in large part to an expected lower growth trajectory in China. However, the price of crude oil remained resilient and was bolstered by events in the Middle East, particularly the conflicts in Egypt and Syria and their political ramifications.

Against this background, the Republic of South Africa continues to address a legacy of great divisions within the population, largely along racial lines, which have taken a heavy toll on human development and the economy. These divisions are evidenced by the chronically high formal sector unemployment rate (which the official estimate puts at 25.0 per cent. as of September 30, 2012) and the widely divergent nature of the economy, in which vast sections of the populace still suffer significant inadequacies in areas such as housing, sanitation, health care and education, while a minority enjoys the benefits associated with a highly developed society. The National Government has expressed its firm intent to continue to address the Republic of South Africa's social and developmental challenges within a consistent, growth-oriented fiscal and budgetary framework.

The economic challenges facing the Republic of South Africa are to support the economy in a sustainable fashion through the economic recovery while continuing to meet the National Government's commitments and spending priorities, which include broadening participation, increasing service delivery, minimizing the effects of the global recession, extending opportunities to all, strengthening industrial development and trade performance and accelerating the pace of job creation and employment. These challenges will be met, in part, through sound tax policy and the stabilisation of public spending within a fiscal framework that takes international and domestic risks into account.

As the National Government pursues these goals, it recognises that private sector confidence, respect for private property rights, cooperation between labour and management and reduced levels of criminal violence will continue to be important determinants of South Africa's ability to achieve sustainable economic growth and employment opportunities for all economically active South Africans.

Area and Population

The Republic of South Africa is situated on the southern tip of the African continent, with the Atlantic Ocean to the west and the Indian Ocean to the east. The north of the country shares common borders with Namibia, Botswana and Zimbabwe and, to the northeast, the country shares a border with Mozambique. The Republic of South Africa also shares common borders with the kingdoms of Lesotho and Swaziland. The total surface area of the Republic of South Africa is approximately 1,219,090 square kilometres, with over 3,000 kilometres of coastline.

The Republic of South Africa comprises nine provinces, which are the Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North West and Western Cape Provinces.

In the former racial classification system that formed the basis for the apartheid system, "Black" referred to persons of original African indigenous origin, "Asian" to persons of Asian origin, "White" to persons of Caucasian origin and "Coloured" to persons of mixed race. While the National Government no longer makes any unfair discrimination based on race, the country's history of racial division and racial and ethnic differences continues to have social and economic significance. This is because social and economic policies are judged partly by their ability to address disparities and discrimination and to equalise opportunities.

Therefore, in this document, reference to such racially classified statistics is made occasionally to illustrate those disparities.

South Africa has a diverse population consisting of Afrikaans and English-speaking Whites, Asians (including Indians), Coloureds, Khoi, Nguni, San, Sotho-Tswana, Tsonga, Venda and persons that have immigrated to South Africa from across the globe. By virtue of the country's diversity, South Africa has 11 official languages, namely Afrikaans, English, isiNdebele, isiXhosa, isiZulu, Sepedi, Sesotho, Setswana, siSwati, Tshivenda and Xitsonga. According to the results of the census conducted in 2011, isiZulu is the mother tongue of 22.6 per cent. of the population, followed by isiXhosa at 15.9 per cent., Sepedi at 9.1 per cent., Afrikaans at 7.9 per cent., and English and Setswana at 8.2 per cent. each. IsiNdebele is the least spoken language in South Africa, at 1.5 per cent. (source: Census 2011).

The Republic of South Africa's population is estimated by Stats South Africa to be approximately 51.8 million people as at 31 December 2011, of which 26.6 million people, representing 51.3 per cent. of the population, are female. Approximately 79.2 per cent. are Black, 8.9 per cent. are Coloured, 2.5 per cent. are Indian/Asian and 8.9 per cent. are White. (source: Census 2011) The most densely populated parts of the Republic of South Africa are the four major industrialised areas, the Pretoria/Witwatersrand/Vereeniging area of Gauteng (which includes Johannesburg), the Durban/Pinetown/Pietermaritzburg area of KwaZulu-Natal, the Cape Peninsula area of the Western Cape (which includes Cape Town) and the Port Elizabeth/Uitenhage area of the Eastern Cape. These areas, which occupy only 4 per cent. of the country's total surface area, account for over 50 per cent. of its urban population.

Government and Political Parties

Under the Constitution, the executive authority of the Government is vested in the President, who serves as both Head of State and Head of Government. The President must be elected by a majority vote of the members of the National Assembly following which the President must resign his or her seat in the National Assembly.

Thabo Mbeki of the African National Congress (the "**ANC**") succeeded Nelson Mandela as President after the June 1999 elections and served as President following the 2004 elections until September 2008. On 20 September 2008, after the ANC announced its decision to recall President Thabo Mbeki from office, President Mbeki resigned and Cabinet member Kgalema Motlanthe was sworn in as president on 25 September 2008. The country's fourth fully democratic national elections took place on April 22, 2009, and saw the ruling ANC maintaining its significant majority in Parliament. On May 9, 2009, ANC President Jacob Zuma was sworn in as the President of South Africa, replacing Kgalema Motlanthe, who became deputy president.

The Constitution provides for the separation of powers among the legislative, executive and judicial branches of the National Government. Under the Constitution, the bicameral Parliament, in which the legislative authority of the National Government is vested, is comprised of a National Assembly and a National Council of Provinces.

The National Assembly consists of no fewer than 350 and no more than 400 members elected on the basis of proportional representation pursuant to which political parties receive seats in proportion to the votes cast for the parties concerned. Of the 400 seats in the National Assembly, approximately 200 seats are selected from provincial lists, with a fixed number allocated to each province. The remaining seats are filled from national lists to ensure proportionality in accordance with the total number of votes cast for each party in the national election.

The National Council of Provinces consists of 90 members (namely 54 permanent members and 36 special delegates). Each of the nine provincial legislatures elects ten representatives.

The Constitution provides for national elections every five years and places all elections and referendums in the country for all three spheres of government (national, provincial and local) under the control of the Independent Electoral Commission (the "**IEC**"). The most recent national and provincial elections were held in April 2009 and municipal elections took place in May 2011. The next national and provincial elections are due to take place in mid-2014.

Each province has its own executive authority, the premier. The premiers are elected by each Provincial legislature from among its members. The powers of the premier are exercised in consultation with a provincial executive council, which is constituted in a manner similar to the Cabinet in the National Government. The provinces exercise limited power on a national level, principally through their representatives in the National Council of Provinces, and also through their power to block Parliamentary action affecting the constitutional position and status of the provinces.

The Constitution provides for a Cabinet consisting predominantly of members of the National Assembly, who retain their seats while in the Cabinet. Cabinet portfolios are allocated by the President. The Cabinet generally operates by consensus rather than by voting. On May 10, 2009, President Zuma announced his initial Cabinet, which consisted of 34 ministers who are members of Parliament, in addition to the President and the Deputy President, as well as some structural changes to the National Government. Several departments were split and new departments were created. President Zuma also announced his intention to form a National Planning Commission (the "**NPC**") which has now been established and is based in the Presidency. The NPC is responsible for strategic planning for the country, and aims to ensure adherence to the "National Plan" by all spheres of the National Government. The NPC is headed up by the former Minister of Finance, Trevor Manuel. Trevor Manuel's replacement as Minister of Finance is Pravin Gordhan, who had headed the South African Revenue Services (the "**SARS**") for the past decade.

The mandate of the NPC is contained in the "Revised Green Paper: National Planning Commission" which was released in February 2010. The revised green paper sets out in broad terms how the NPC should work and interact with the government and the broader society. The document lists 11 subjects on which the NPC may want to release detailed reports namely: water, energy, education, health and demography, spatial planning, infrastructure, transport, defense capabilities, climate change and the economy.

The NPC released a diagnostic report on June 9, 2011 that aims to identify the main challenges confronting the country and to examine the underlying causes of such problems. The diagnostic report is not a plan; it provides the basis for a plan.

The diagnostic report covers the following topics: human conditions, material conditions, nation building, the economy and institutions and governance.

On November 11, 2011, the NPC released its vision statement for 2030, as well as a National Development Plan for the Cabinet's consideration. The National Development Plan focuses on key priority areas and identifies nine primary challenges: high unemployment, poor education outcomes, a high disease burden, divided communities, uneven public-service performance, settlement patterns that marginalise the poor, corruption, an overly resource-intensive economy and crumbling infrastructure.

The key areas of focus for the National Development Plan are: enhanced capabilities and an active citizenry, growth, investment and employment, rising standards of education and a healthy population, an effective and capable government, collaborations between the private and public sectors and Leadership from all sectors of society.

Legal System

The South African legal system is based upon Roman-Dutch law and incorporates certain elements of English law, subject to the Bill of Rights contained in the Constitution. Judicial authority in South Africa is vested in the courts, which are established pursuant to the Constitution. The Constitution is the supreme law of the land and no other law can supersede the provisions of the Constitution. The Constitutional Court has jurisdiction as the court of final instance over all matters relating to the interpretation, protection and enforcement of the terms of the Constitution and is the court of first instance on matters such as those concerning the constitutionality of an Act of Parliament referred to it by a member of the National Assembly. Decisions of the Constitutional Court are binding upon all persons and upon all legislative, executive and judicial organs of state. Matters not falling within the jurisdiction of the Constitutional Court fall within the jurisdiction of the Supreme Court, which consists of the Supreme Court of Appeal and various High Courts. Judgments of the Supreme Court of Appeal are binding on all courts of a lower order, including the High Courts, and judgments of the High Courts are binding on the lower courts within their respective areas of jurisdiction.

The Chief Justice and the Deputy Chief Justice of the Constitutional Court are appointed by the President in consultation with the Judicial Service Commission (the "**JSC**") and the leaders of parties represented in the National Assembly. The Judge President and Deputy President of the Supreme Court of Appeal are appointed by the President after consulting with the JSC only. The remaining judges of the Constitutional Court, the Supreme Court of Appeal and the High Courts are appointed by the President on the advice of the JSC.

Former Chief Justice Sandile Ngcobo retired on August 12, 2011 and was replaced by the new Chief Justice, Mogoeng Mogoeng, on September 8, 2011. Prior to his retirement, President Zuma had extended Chief Justice Ngcobo's term of office. However, this decision was declared unconstitutional by the Constitutional Court which held that the section of the Judges' Remuneration and Conditions of Employment Act, which the President relied on to extend the term of office, was unconstitutional. The appointment of Mogoeng Mogoeng to the position of Chief Justice ahead of Deputy Chief Justice Dikgang Moseneke was controversial and prompted public scrutiny of the JSC and the consultation process. Chief Justice Mogoeng Mogoeng's appointment was confirmed after an intensive two-day televised interview before the JSC that was chaired by Deputy Chief Justice Moseneke.

Broad Based Black Economic Empowerment

BBBEE is a core tenet of the Government's initiative to address the economic exclusion of previously disadvantaged South Africans by encouraging the redistribution of wealth and opportunities to such persons. As part of this initiative, the Government enacted the Broad Based Black Economic Empowerment Act, 2003, as amended (the "**BBBEE Act**"), which became effective in April 2004. For purposes of the BBBEE Act, "black people" is a generic term which means Africans, coloureds and Indians. On June 18, 2008, the High Court of South Africa ordered that South African Chinese be included within the ambit of the BBBEE Act. The BBBEE Act aims to facilitate BBBEE by promoting economic transformation to allow meaningful participation by black people in the economy; changing the racial composition of ownership and management structures in enterprises; promoting investment programmes that lead to BBBEE; enabling access to economic activities, infrastructure and skills for black women and rural and local communities; increasing the extent in which workers, communities, cooperatives own and manage enterprises; and promoting access to finance for black economic empowerment.

The Department of Trade and Industry has, as empowered by the BBBEE Act, issued Codes of Good Practice (the "**Codes**") on Black Economic Empowerment ("**BEE**"). The Codes, which were promulgated on February 9, 2007, must, as far as is reasonably possible, be applied by every organ of the Government and local government and every public entity in issuing licences, implementing procurement policies, determining qualification criteria for the sale of state-owned enterprises and developing criteria for entering into public private partnerships. The Codes cover concepts such as the measurement of ownership and management control, preferential procurement, employment equity, skills development, enterprise development, residual (industry specific and corporate social investment initiatives), and also qualifying small enterprise sections. Other issues covered include fronting practices, specified verification issues relating to the complex structures, multinationals and state-owned/public entities. These Codes, which are subject to review by the Minister of Finance in 2017, are intended to encourage both public and private entities, through the issuing of licences, concessions, sale of assets and preferential procurement, to implement appropriate BEE initiatives.

The BBBEE Act places a legal obligation on state agencies to contribute to BBBEE, including when developing and implementing their preferential procurement policies. The Preferential Procurement Policy Framework Act, 2000, as amended (the "**PPPFA**") was promulgated as a result of Section 217 of the Constitution which states that all spheres of government must have a mechanism in place that would bring about categories of preference in allocation of contracts when procuring goods and services to advance historically disadvantaged individuals. In December 2006, when the Codes were approved for gazetting, Cabinet gave the DTI and National Treasury a mandate to amend the PPPFA to advance the objectives of the BBBEE Act and the related strategy, as these two pieces of legislation were in conflict of each other. The draft amended PPPFA was gazetted for public comment on August 20, 2009. On June 8, 2011, the Minister of Finance gazetted new regulations under the PPPFA which will become applicable to all entities listed in Schedules 2 and 3 of the Public Finance Management Act (1 of 1999) as of December 7, 2011 except selected "major public entities" and certain national and provincial government business enterprises set out in the PFMA, which are exempted until December 7, 2012. In terms of the new regulations, the BBBEE contributorship level of an enterprise (calculated with reference to the Codes) will account for up to 20 per cent. of the scorecard in respect of all tenders valued between R30,000 and R1,000,000 and up to 10 per cent. of the scorecard in respect of tenders exceeding R1,000,000.

Land Reform

Land reform in the Republic of South Africa is a complex issue, due both to the apartheid era's legacy of dispossessing black South Africans of their land and to current human development challenges. The Government seeks to, within the framework of the judicial process and the Constitution's protection of private property rights, facilitate the equitable transfer of land to South Africans who were previously dispossessed of their land as a result of the land dispossession policies of the previous regime in the Republic of South Africa.

In order to achieve these aims, the National Government has developed a land reform strategy that focuses on restitution, redistribution and land tenure reform, as outlined in a 1997 White Paper on Land Affairs. Restitution involves either returning land or providing alternative compensation to persons who have been deprived of their land; redistribution encourages the acquisition of land by disadvantaged South Africans (with the aid of government grants); and land tenure reform aims to create a unified and secure system of landholding.

The Department of Rural Development and Land Reform had previously set 2014 as the deadline for achieving land reform in South Africa through the redistribution of 30 per cent. of white-owned commercial agricultural land to those previously dispossessed of such land. Section 25 of the Constitution provides that property may only be expropriated subject to compensation that is either agreed by those affected or decided or approved by a court. The National Government has been committed, in executing its land reform strategy, to uphold this constitutional principle.

In June 2007, the National Policy Conference of the ANC resolved that it was necessary to develop a detailed strategy in order to meet the 30 per cent. target. Pursuant to this, the Department of Public Works released a policy document on the expropriation of land and other property in the public interest or for public purposes. The policy document had two main objectives: (1) to enable the state to use expropriation as a means to affect land reform and (2) to align the Expropriation Act of 1975 with the Constitution. To achieve these goals, the Expropriation Bill was presented before Parliament on April 11, 2008, and after certification of the Bill, was published for public comment. On August 27, 2008, the Portfolio Committee on Public Works withdrew the Bill until further notice, stating that more time was needed to ensure consultation with a wide variety of stakeholders.

It has become apparent that the goal to redistribute 30 per cent. of white-owned commercial agricultural land to those previously dispossessed thereof will not be achieved by 2014. As of March 2012, the National Government had redistributed 9 million hectares (or 36 per cent.) of such land, and it is anticipated that the National Government will extend the deadline to 2020.

The implementation of the land restitution and land reform programs are supported through allocations to the Department of Rural Development and Land Reform. Expenditure grew from R6.7 billion in 2008 to R8 billion in 2011, mainly due to the increase in land reform and restitution grants, and is expected to increase to R10.3 billion by 2016.

The National Government is also currently investigating policy options with regards to foreign ownership of South African land and its effect on the National Government's ability to meet its Constitutional duties to effectively deliver on land reform. The policy options recommend that where land has been earmarked for reform, restitution or integrated human settlement, National Government approval is required for the sale of that land to foreign nationals.

Significant strides have been made in the area of land reform:

- As at March 31, 2012 , 640 farms had been recapitalised;
- The Department of Rural Development and Land Reform has established a Social, Technical, Rural, Livelihood, Infrastructure and Facilitation ("**STRIF**") branch and a Rural Infrastructure Development ("**RID**") branch to support the comprehensive rural development program;
- The Department of Rural Development and Land Reform has developed a model for handling claims with respect to land situated on strategic national assets, such as Kruger National Park, land owned by forestry companies, mining houses and sugar mills where the landowners have made significant capital investment. Such property is valuable and the Department of Rural Development and Land Reform estimated that an amount in excess of R100 billion would be required to provide restitution in respect of such land; and
- In November 2011, the Department of Rural Development and Land Reform, together with the World Bank, launched the local and community driven development program, which empowers communities to take charge of their own development.

Mining Industry Reform

Mining in the Republic of South Africa has historically been undertaken largely by the private sector. The most important mining houses in the Republic of South Africa include Anglo American plc, De Beers Corporation, Anglovaal Mining Limited, BHP Billiton SA, Gold Fields Limited, Impala Platinum Holdings Limited, Xstrata plc and Rand Mines. These corporations, together with their affiliates, are responsible for the majority of the gold, diamond, uranium, zinc, lead, platinum, coal and silver production in the Republic of South Africa.

As of June 2011, over 500,000 people were directly employed by the mining sector, of which over 169,000 were employed in the gold mining industry. As of January 2012, there were 1,647 registered mines and quarries in South Africa. The Government enacted the Mineral and Petroleum Resources Development Act ("**MPRDA"**) in 2002 which came into effect on May 1, 2004, together with the implementation of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry published on August 13, 2004 (the "**Mining Charter**"). The MPRDA recognises the state's sovereignty and custodianship over the country's mineral resources.

The MPRDA also provides for equitable access to mineral resources, expands opportunities for historically disadvantaged individuals, and promotes economic growth, employment and socio-economic welfare, and security of tenure. The Department of Mineral Resources (the **"DMR")** is currently reviewing the MPRDA to address issues such as transfer of rights, amendments of rights, turnaround times, consultations, delegations of authority, mining titles office, application criteria etc., and expects to complete the review by the end of 2012. The function of processing and finalizing applications and monitoring the evaluations of rights under the MPRDA is entrusted to the Minister of Mineral Resources. In granting rights to historically disadvantaged individuals, the DMR's objective for fiscal 2012 was to grant 90 such rights, 47 of which have been granted as of September 30, 2012. An online mineral resources administration system was launched in April 2011 to process mining license applications which enables the monitoring of the status and improves overall quality of license applications.

The Minister of Mineral Resources (formerly the Minister of Minerals and Energy) and representatives of certain mining companies and the National Union of Mineworkers developed the Mining Charter in October 2002, as required under the MPRDA. The vision of the Mining Charter is to create a globally competitive mining industry that reflects a non-racial Republic of South Africa and draws on the human and financial resources of, and offers real benefits to, all South Africans. The Minister of Mineral Resources, the Chamber of Mines and the National Union of Mineworkers signed the stakeholder's declaration on strategy for the sustainable growth and meaningful transformation of the Republic of South Africa's mining industry on June 30, 2010.

The DMR is also responsible for managing the environmental impact from mining-related activities, and by the end of September 2012 had conducted 775 environmental inspections out of a target of 1,800 inspections. The DMR is currently developing measures to streamline the licensing process relating to mining environmental issues in order to improve turnaround times.

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The Mining Charter was reviewed after its first 5 years, as agreed by its signatories. The result of the review is the recently published 2010 amendment to the Mining Charter which reaffirms the 2014 targets of the Mining Charter (the "**Revised Mining Charter**").

The Mining Charter further mandates that 26 per cent. of industry assets be transferred to historically disadvantaged individuals by 2014. Amendments to the Mining Charter in the Revised Mining Charter include, *inter alia,* the requirement by mining companies to (i) facilitate local beneficiation of mineral commodities; (ii) procure a minimum of 40 per cent. of capital goods, 70 per cent. of services and 50 per cent. of consumer goods from HDSA suppliers by 2014 (these targets are exclusive of non-discretionary procurement expenditure); (iii) ensure that multinational suppliers of capital goods contribute a minimum of 0.5 per cent. of annual income generated from South African mining companies towards the socioeconomic development of South African communities via a social development fund beginning in 2010; (iv) achieve a minimum of 40 per cent. HDSA demographic representation by 2014 at executive management level, senior management level, core and critical skills, middle management level and junior management level; (v) invest up to 5 per cent. of annual payroll in essential skills development activities; and (vi) implement measures to improve housing and living standards for mineworkers by converting or upgrading mineworkers' hostels into family units, attaining an occupancy rate of one person per room and facilitating home ownership options for all mineworkers in consultation with organised labour, all of which must be achieved by 2014. In addition, mining companies are required to monitor and evaluate their compliance to the Revised Mining Charter and must submit annual compliance reports to the DMR.

The Scorecard for the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry attached to the Revised Mining Charter (the "**Scorecard**") makes provision for a phased-in approach for compliance with the above targets over the five-year period ending in 2014. For measurement purposes, the Scorecard allocates various weightings to the different elements of the Revised Mining Charter. Failure to comply with the provisions of the Revised Mining Charter will amount to a breach of the MPRDA and may result in the cancellation or suspension of a mining company's existing mining and/or prospecting rights.

In 2008, the Mineral and Petroleum Resources Development Amendment Act was passed to do the following: improve the MPRDA; transfer environmental regulation of mines to the Minister of Environmental Affairs and Tourism; deal with the challenges of implementing the MPRDA; implement technical improvements to the MPRDA to improve efficiency in the management of the country's mineral resources; improve the handling of residue stockpiles and residue deposits; and streamline the process of obtaining ministerial approval for cessions, transfers and encumbrances of rights aimed at promoting and protecting new entrants into the mining industry and at facilitating economic development.

The Mineral and Petroleum Resources Development Amendment Act is yet to come into force. The DMR is currently considering further possible amendments to the MPRDA to reinforce the objectives of the MPRDA, to promote investment in the mining sector and to improve the system of granting rights.

A mineral beneficiation strategy was adopted by the Cabinet in July 2011, focusing on five strategic value chains: iron and steel, energy commodities, jewelry fabrication, autocatalytic converters and diesel particulate filters, and pigment and titanium metal production. The purpose of the strategy is to outline a framework for the orderly development of the country's mineral value chains, enabling South Africa to develop its mineral wealth to its full potential and to the benefit of the entire population. Its vision is to advance economic development in South Africa through the optimisation of linkages in the mineral value chain, facilitate economic diversification, create jobs and promote industrialisation. It aims to expedite South Africa's move towards a knowledge-based economy and contribute to GDP growth through increased mineral value added per capita. The strategy is designed to align with South Africa's national industrialisation program and aims to create jobs in an economically diverse and environmentally sustainable manner, increase South Africa's competitiveness and expand its industrial knowledge base.

Following the adoption of the mineral beneficiation strategy, the DMR voted on two of the five pilot value chains (iron and steel and energy) as outlined in the strategy, which were approved by Cabinet in October 2011. The remaining value chains are anticipated to be voted on during the remainder of 2012 and in 2013.

Other Mining Industry Initiatives and Legislation

The Mineral and Petroleum Resources Royalty Act, 2008, as amended (the "**Royalty Act**") is aimed at ensuring that the country benefits from the exploitation of its mineral resources by imposing a resource rent on holders of rights. It also seeks to stimulate investment in the sector by addressing potential investors' need for regulatory certainty. The Royalty Act recognises that mineral resources are non-renewable and are part of the common heritage of all South Africans, and thus imposes a royalty on the extraction and transfer of mineral resources. The Schedules to the Royalty Act set out the classification of the mineral resources and their corresponding royalty rate. The Royalty Act was passed by the National Assembly on 21 August 2008 and the National Council of Provinces on 23 September 2008. The Royalty Act was assented to by the President on 24 November 2008 and came into force in stages between 1 November 2009 and 1 March 2010.

In addition, the National Government founded an organisation called the South African Women in Mining Association in 1999, with a focus on assisting informal mining groups in obtaining mining rights, running mining businesses and promoting female empowerment in the mining sector in accordance with the provisions of the Mining Charter. This initiative was followed by the launch in 2007 of the Youth in Energy and Mining ("**YEM**"), a program aimed at young people with an interest in the mining and energy sectors. YEM seeks to promote skills development, procurement, beneficiation enterprise development and small scale mining.

The mining industry has also established the Mining Industry Growth, Development and Employment Task Team ("**MIGDETT**") to help manage the negative effects of the global economic crisis and to save jobs, as well as to position the industry for growth and transformation in the medium to long term. Membership of MIGDETT includes the mining industry, the National Government, organised labour and other stakeholders.

Health and safety standards within the industry are governed by the Mine Health and Safety Act, 1996, as amended ("**MHSA**"). Mining safety continues to be an area of concern as on average there are approximately 125 mine worker fatalities annually. These fatalities are partially attributable to a lack of stringent safety measures. Fall of ground accidents remains the largest cause of fatalities, followed by transportation and machinery accidents. During 2011, consultations took place to consider amendments to the MHSA. The proposed amendments are designed to strengthen enforcement, simplify the administrative system for the issuing of fines, reinforce offences and penalties, remove ambiguities in certain definitions and expression in the MHSA, and promote consistency with other laws, particularly the MPRDA.

Under the leadership of Minister Susan Shabangu, the DMR has engaged in enhanced geosciences research and development, promoted mineral beneficiation and mine health and safety policy development and continued promotion and regulation of the diamond and precious metals industries. As part of a strategy of enhancing state participation in the mining industry, Cabinet approved the establishment of the African Exploration Mining and Finance Corporation ("**AEMFC**") to serve as the nucleus of a newly established state-owned mining company.

Successful implementation by the DMR of its development strategy for the mining sector requires stakeholder engagement to address current infrastructure, workforce skill development, and regulatory constraints, as well as to encourage exploration and research and development. As discussed in greater detail, below, under "*The South African Economy—Mining and Quarrying*", a significant challenge for the DMR and industry stakeholders is the repairing of industrial relations in the face of continued wildcat strikes following the death of more than 40 mine workers during an August 2012 strike at the Lonmin mine in Marikana.

Crime Prevention

Despite notable achievements made during fiscal 2011, the fight against crime and corruption remains a top government priority.

Crime prevention and internal security in the Republic of South Africa are primarily the responsibility of the South African Police Service.

During fiscal year 2012, incidents of serious crime, which includes contact and contact related crime, crime against property and crime that is difficult to detect without police action (e.g., illegal possession of firearms), declined 1.9 per cent. from 3,679.9 incidents per 100,000 persons in fiscal year 2011 to 3,608.7 incidents per 100,000 persons in fiscal year 2012. Contact crimes accounted for 29.9 per cent. of the total crimes, other serious crimes 25.8 per cent., property-related crimes 25.7 per cent., crimes detected as a result of police action 12.5 per cent., and contact-related crimes 6.2 per cent.

The rate for contact crimes declined by 3.5 per cent. from 1,277.2 in fiscal year 2011, as compared to 1,232.5 in fiscal year 2012. In terms of its sub-categories, murder, common robbery, and assault with intent to inflict grievous bodily harm declined by 3.1 per cent., 4.6 per cent. and 4.2 per cent., respectively. There was also a decrease of 9.5 per cent. recorded for theft of motor vehicles and motorcycles during this period, and burglary at residential premises decreased by 2 per cent. Fraud with counterfeit bank cards has continued to rise, from 4,059 incidents in fiscal year 2011 to 5,322 incidents in fiscal year 2012.

The number of charges on which convictions were obtained increased by 3.4 per cent., from 26,475 in 2010/11 to 27,379 in fiscal year 2012. Ad hoc investigations resulted in a total of 3,415 arrests whilst 876 convictions were secured for specific violent crimes such as hijacking of cars and trucks, cash-in-transit robberies, bank robberies, ATM bombings, house and business robberies.

The National Government, through the Justice, Crime Prevention and Security ("**JCPS**") cluster remains committed to the fight against crime. A Criminal Justice System ("**CJS**") review undertaken in 2009 with a view to clearing blockages within the CJS and finding solutions to create a transformed, modernised and effective CJS, culminated in what is popularly known as the CJS 7 point plan. This plan includes: alignment through a single vision and mission for the criminal justice system leading to single objectives, plans, priorities and performance measurement targets for the CJS; legislation and protocols to facilitate integration of CJS activities, interventions and processes; practical short and long term proposals to improve the all-round performance of the courts; improved component parts of the CJS with a focus on areas with serious short comings; provision of an integrated and seamless national integrated justice information system to facilitate more informed strategies, plans and decision making as well as to facilitate better day-to-day operational management; provision of technology solutions aimed at modernising operations, reducing costs and eliminating waste; and involvement of the population at large in the fight against crime.

The CJS 7 point plan focus areas form an integral part of the JCPS Cluster's Delivery Agreement, signed by the JCPS and the President through the Minister in the Presidency on 24 October 2010. The JCPS Cluster, through the Delivery Agreement, brings partners together to ensure that key partners in crime prevention work together to achieve the objective that all people in South Africa are and feel safe. The partners in this process include national and provincial departments as well as local communities. At a national level, key partners include the Departments of Correctional Services, Home Affairs, Justice and Constitutional Development, Health, Social Development, the State Security Agency, the National Prosecuting Authority, the South African Police Service, Defence and Military Veterans, Statistics South Africa, the National Treasury, Basic Education, International Relations and Cooperation, Human Settlements, Legal Aid South Africa, Communications and Science and Technology. At the provincial level, the cluster is represented by the Departments of Community and Safety, while at a local level representation is through Community Safety Forums.

Short-, medium- and long term cross-departmental interventions have also been implemented through overarching intersectoral guidelines and protocols to improve the quality and speed of CJS processes. These include:

- *Intersectoral Case Flow Management Guidelines*—improving coordination between CJS partners, promoting case finalisation and reducing case backlogs.
- *Regional Court Screening Protocol*—promoting trial readiness at the level of the lower courts.
- *Trial Efficiency Protocol*—increasing efficiencies in the trial phase of prosecutions.
- *Bail Protocol*—establishing a policy to deal with persons who are incarcerated and who cannot afford to pay bail when it is granted.
- *Court Protocol for Legal Aid*—improving pre-trial coordination between the National Prosecuting Authority and Legal Aid South Africa.

During 2011, the banking sector and Home Affairs jointly launched a verification system which uses biometrics linked to the Home Affairs National Identification System ("**HANIS**") to verify the identity of clients. The identification of border security as one of the key strategic priorities of the government saw the redeployment of the South African National Defence Force to borderlines. This is also being supported by the Inter Agency Clearing Forum, which oversees the development of the required automation, process, reengineering and integration of border processes and security responses. Work is in progress to establish a Border Management Agency.

In order to facilitate a multi-sectoral approach to fighting crime, the JCPS Cluster has developed a National Cyber Security Policy Framework, which was approved by the Cabinet in March 2012. The Framework outlines policy positions that are intended to: address cyber threats to national security; develop, review and update existing substantive and procedural laws to ensure alignment; and build confidence and trust in the use of information and communication technologies.

Following the 1998, 2003 and 2007 surveys, Statistics South Africa conducted another Victims of Crime Survey in 2011 focusing mainly on three areas: the nature, extent and patterns of crime in South Africa from a victim's perspective; victim risk and victim proneness; and public perceptions on police and court services.

The survey revealed that 40.7 per cent. of households believed that both violent and non-violent crime declined in their neighborhoods during the period 2008 to 2010. On the other hand, 34.2 per cent. believed that it had increased, while 25.1 per cent. indicated that crime remained the same over the three-year period. Most households were satisfied by the work done by the police and the courts based on a number of factors such as crime response time, visible policing, improving conviction rates, and sentencing of perpetrators of crime.

South African Police Service

Crime prevention and internal security in South Africa are the primary responsibilities of the South African Police Service ("**SAPS**"). Under Section 205 of the Constitution, the objects of the policy service are: to prevent, combat and investigate crime; to maintain public order; to protect and secure the inhabitants of the Republic and their property; and to uphold and enforce the law.

In order to achieve the objective that people in South Africa are and feel safe, the SAPS seeks to provide services that guarantee safe communities by: reducing the number of serious crimes, especially contact and so called "trio crimes" (carjacking, home robbery and business robbery); increasing activities to prevent borderline crime; increasing the percentage of court-ready case dockets for all serious, contact and trio crimes; increasing the detection rate for all serious, contact and trio crimes, including organised crime and crimes against women and children; and increasing the conviction rates for all serious, contact and trio crimes.

The SAPS's ability to respond to crime has been enhanced through the development of a specialised, properly-resourced, technologically-advanced, adequately-skilled and well-managed police force, focusing mainly on Visible Policing, the Directorate for Priority Crime Investigation ("**DPCI**"), Crime Intelligence, the Criminal Record Centre, and Forensic Science Laboratory.

Crime prevention and internal security in South Africa are the primary responsibilities of the South African Police Service ("**SAPS**"). The SAPS operated 1,125 police stations throughout the country as at March 31, 2012, compared to 1,120 as at March 31, 2011. Its staff establishment stood at 199,345 as at March 31, 2012; an increase from 193,892 as at March 31, 2011. This increase was mainly to boost the capacity of detective services. SAPS training in fiscal year 2011 and 2012 mainly focused on detective training, client/customer service, victim support, and combating of violence against women and children.

Structural changes have been introduced in the detective services field with emphasis on the re-establishment and capacitation of specialised units. In line with this, a project was initiated to identify experienced detectives who had left field work as a result of transfers and promotions. As at March 31, 2012, a total of 479 detectives had been redeployed back to the field. Furthermore, an overall number of 11,583 detectives were trained during fiscal year 2012. Of these, 2,920 were trained in specialised detective courses as a part of a continued effort to increase the quality of detective work. As a result, the detection rate for all serious crime increased from 51.8 per cent. in fiscal year 2011 to 53.4 per cent. in fiscal year 2012, and the relative court ready case dockets increased from 30.8 per cent. to 48.2 per cent. over the same period.

In order to enhance the performance of the CJS, 139 Detective Court Case Officers ("**DCCO**") were placed at 109 selected courts where large volumes of cases were handled. Their main function was to validate new court cases for completeness and to ensure that investigating officers complied with instructions of public prosecutors with a quick turnaround time. This has been accompanied by a further 30 per cent. reduction of backlogs at forensic laboratories, following the 66 per cent. reduction achieved during fiscal year 2011.

The Organised Crime Investigation Units ("**OCIUs**") within the DPCI are responsible for the prevention of a cross-sector of organised crime related activities. To address the threat of serious organised crime, the OCIUs conducted a project driven investigation that resulted in the successful termination of 46 criminal operations.

To strengthen the fight against corruption, the Anti-corruption Strategy for the SAPS, which addresses issues of fraud in line with the Minimum Anti-corruption Capacity Requirements of Government, was revised.

More effort is also directed towards mobilising all sectors of society in the fight against crime through the establishment of sustainable partnerships with communities, research and academic institutions, the business community, media and civil society. These initiatives include: Community Police Forums ("**CPFs**"), to facilitate engagement and cooperation between the SAPS and the communities; The comprehensive Rural Safety Strategy, to enhance safety and security levels, accessibility to policing and service delivery; E-Stop, a call center responsible for collecting information and intelligence on criminal activity from the public. During the year ended 31 March 2012, 2,562 SMS tips and 1,063 web tips were received, which led to 109 successful prosecutions; Memorandum of Understanding with Business Against Crime South Africa ("**BACSA**"), to implement a program aimed at improving service delivery at police stations. The program includes projects dealing with victim empowerment, community involvement in crime prevention, statement taking and improving access to policing.

In order to effectively deal with the scourge of corruption, the JCPS has set up an Anti-Corruption Task Team. The task team comprises the Directorate for Priority Crime Investigation (the "**DPCI**", commonly known as the Hawks), the Special Investigating Unit (the "**SIU**") and the NPA. This task team is supported by the SARS, Financial Intelligence Centre (the "**FIC**") and the departments of National Treasury and Public Service and Administration. It is mandated to coordinate the work done by various law enforcement agencies and watchdog bodies that fight corruption in order to fast-track the investigation and prosecution of high priority corruption cases. In addition, the National Government has set up the following task teams and units to complement the work that is being done by the criminal justice sector, in addressing corruption, particularly in the public sector:

The Multi-Agency Working Group on Procurement—This team was established by the Minister of Finance to deal with irregularities in the government procurement system, focusing on closing systems gaps and early detection of leakages. It aims to strengthen compliance with supply chain policies and procedures in all three spheres of government. It comprises the Auditor-General (the "**AG**"), SARS, FIC, Department of Public Service and Administration and SIU. It is supported by the Hawks and NPA.

The Special Anti-Corruption Unit—This unit was established by the Department of Public Service and Administration to assist government departments with managing corruption cases among public servants, from investigation to conclusion. It investigates officials with undeclared business interests; officials doing business with the government without disclosing their business interests; officials performing remunerative work outside the public service without permission; and officials who solicit and/or receive bribes in return for performing or not performing official duties as well as those receiving grants or benefits unlawfully. It operates through a multi-agency approach, collaborating with key stakeholders such as the SIU, AG, National Treasury and the Public Service Commission.

Department of Cooperative Governance and Traditional Affairs Inspectorate on Fraud and Corruption—The inspectorate was set up to deal with corruption matters at the local government level. It promotes ethical conduct among councilors; analyses corruption trends; and develops strategies to assist municipalities, South African Revenue Service and other State agencies, to expedite corruption cases. The Inspectorate complements efforts being made by the Department of Public Service and Administration's Anti-Corruption Unit. It also works closely with the Police and the SIU.

In order to facilitate a multi-sectoral approach to fighting crime, the JCPS Cluster has developed a Social Crime Prevention Strategy. It focuses on the implementation of concerted social crime prevention initiatives and creating a dedicated and integrated crime prevention capacity, whilst maximizing the participation of communities and civil society organisations.

Department of Justice and Constitutional Development

The Department of Justice and Constitutional Development ("**DoJCD**") continues to play a leading role in terms of coordination and leadership of the JCPS Cluster and performance under the Delivery Agreement.

During fiscal year 2012, the Department has achieved significant progress in its endeavor to reduce crime and corruption through modernisation of IT systems. An Integrated Case Management System ("**ICMS**") has been deployed in all 402 magistrates' offices that deal with deceased estates in order to curb fraud and corruption in the master's offices, in particular fraud relating to the identity of beneficiaries when payments are claimed from the Guardians' funds. The ICMS involves the electronic transmission of docket information, first appearance outcomes, and case status information between the SAPS and the department. In addition, a video arraignment pilot project in 47 courts has been completed. The aim of this project, integrated between the Departments of Justice and Constitutional Development and Correctional Services, was to enable postponement of cases without the accused being transported to court.

Progress has also been made in terms of transformation within the South African judicial system and the promotion of a fully independent judiciary. Following the establishment of an independent Office of the Chief Justice ("**OCJ**") by former Chief Justice Ngcobo in September 2010, preparations are now underway to pilot the transfer of administration of the High Courts from the Department to the OCJ during fiscal year 2014.

In May 2012, the Department published a framework for the transformation of the State Legal Service. This framework seeks to restructure state legal services as part of a broader transformation agenda to fundamentally change institutions of governance in post-apartheid South Africa.

The Asset Forfeiture Unit ("**AFU**") of the National Prosecuting Authority ("**NPA**") continues with its fight against crime and corruption. The R150 million recovered by the AFU has been allocated from the Criminal Assets Recovery Account ("**CARA**") to build capacity in the Anti-Corruption Task Team ("**ACTT**") in order to enable it to carry out its mandate.

The Special Investigating Unit ("**SIU**") was established in terms of the Special Investigating Units and Special Tribunals Act (1996) to provide professional forensic investigating and litigation services to all state institutions at national, provincial and local level. Due to government's renewed focus on reducing wastage and addressing corruption, the SIU's service delivery focus over the past two years has shifted more towards complex, long-term investigations into procurement irregularities. Significant progress has been made in the investigations of serious incidents of corruption arising from the numerous Proclamations which were promulgated by the President.

Department of Correctional Services

The aim of the Department of Correctional Services ("**DCS**") is to contribute to maintaining and protecting a just, peaceful and safe society, by enforcing court-imposed sentences, detaining inmates in safe custody whilst maintaining their human dignity, developing the sense of social responsibility of offenders, and promoting the general development of all offenders and persons subject to community corrections.

During fiscal year 2012, the DCS successfully shortened the time that remand detainees spend in correctional centers, increasing the number of parolees that did not violate their parole conditions, increasing the number of victims that were involved in parole sittings and increasing the number of offenders who participated in rehabilitation programs.

Relative progress has also been made with the development of a planning, monitoring, evaluation and reporting system to promote the DCS systems, processes and procedures providing quality information and services. A downward trend in the management of overcrowding, escapes from, and unnatural deaths in, correctional facilities observed during fiscal year 2011 has been sustained.

As a sign of the trust and confidence that the DCS enjoys within the region, the DCS was appointed as the Secretariat for the African Correctional Services Association, and was instrumental in the establishment of a Southern African Corrections Forum ("**SACF**"), which serves as a vehicle to promote transformation and harmonisation of corrections and prisons in the Southern African Development Community ("**SADC**") region.

During the year under review, the DCS established a remand detention system with a view to providing improved management of remand detainees. This saw the gazetting of 26 dedicated remand detention facilities country wide, as well as authorisation of another 109 correctional centers to accommodate remand detainees in dedicated sections or units in those centers. The involvement of the DCS in the review of the criminal justice system also resulted in the development of two draft protocols amongst JCPS Cluster partners to enable the DCS to render operative Sections 49E and 49G of the Correctional Matters Amendment Act (2011), one relating to the maximum incarceration periods for remand detainees and the other relating to the referral of terminally ill remand or severely incapacitated remand detainees to court.

Following a review of the medical parole regulatory framework provided for in section 79 of the Correctional Service Act (1998), the Correctional Matters Amendment Act (2011) came into effect in September 2011. The Act aims to enhance the effectiveness of the parole system by balancing the medical condition of inmates against the risk they pose to society if they are placed on medical parole. A Medical Parole Advisory Board was introduced in February 2012 to assist in making the medical parole application processes trouble free, fair and transparent.

To further enhance the effectiveness of the South African parole system, a pilot electronic monitoring system for parolees was implemented in February 2012. The system is expected to reduce the workload for guarding parolees, enhance effective utilisation of correctional supervision, promote the confidence of various partners and the public to enhance effective utilisation of alternative sentencing options, and alleviate the problems of overcrowded correctional centers. Also in February 2012, the DCS launched its first halfway house for parolees, the goal being to assist offenders who do not have fixed and traceable addresses to have a stable home environment. The facility currently houses only juveniles who initially could not be released as a result of lack of a support system.

The DCS anticipates that female ex-convicts will be the next category of offenders to benefit from the establishment of halfway houses. The DCS also established mother and baby units for female offenders who have babies in correctional centers. To enhance the skills that female offenders acquire while in correctional facilities, the DCS launched a pilot project for the production of sanitary towels, called the Sanitary Dignity Campaign. While the project will make a significant contribution to the provision of skills to offenders, it will also assist in the provision of sanitary towels to the communities within the proximity of the centers.

To educate and provide skills to youth offenders in preparation for their reintegration into society, the DCS entered into various partnerships with other national departments, the private sector and non-governmental organisations. One such partnership involves the Department of Communications to offer e-literacy programs to young offenders between the ages of 14 and 35 years. Utilizing internal resources, the DCS has furthermore embarked on a project to establish computer based training centers at youth and adult centers.

International Relations

Having emerged from the international isolation of the apartheid era, the Republic of South Africa has become a leading international actor. Its principal foreign policy objective is to develop good relations with all countries, especially its neighbours in the Southern African Development Community and the other members of the African Union ("**AU**"). As of September 2011, the Republic of South Africa hosted 125 high commissions and embassies as well as 33 international organisations. The Republic of South Africa has 109 embassies and high commissions and 14 consulates abroad.

United Nations

The Republic of South Africa was one of the 51 founding members of the United Nations (the "**UN**") in 1945. On November 12, 1974, the UN General Assembly suspended the Republic of South Africa from participating in its work, due to international opposition to apartheid. The Republic of South Africa was re-admitted to the UN in 1994 following its transition into a democracy. Twelve years after re-admittance to the UN, the Republic of South Africa was endorsed by the AU and elected to serve as a non-permanent member of the UN during the 2007-2008 term. The Republic of South Africa began its second term as a non-permanent member of the UN's Security Council for the 2011-12 term on January 1, 2011.

In November 2012 South Africa was elected by the Members of the UN General Assembly to the 47-Member Economic and Social Council of the United Nations ("**ECOSOC**"). ECOSOC is a premier organ of the United Nations responsible for economic and social development matters of the world. The group has a charter mandate to drive the development agenda of the United Nations and is also responsible for evaluating and promoting the implementation of the Millennium Development Goals.

International Monetary Fund ("IMF")

With the first fully democratic national elections in 1994, South Africa regained the full rights and obligations of membership of the IMF and the World Bank and its affiliated agencies.

South Africa is a founding member of the IMF and has always been in good standing with full access to technical and financial assistance from the institution. As at October 31, 2012, South Africa's quota in the IMF is SDR1,868.5 million (equivalent to U.S.$2,857.2 million); and its 19,422 votes account for 0.77 per cent. of the total number of votes. South Africa's current financial position in the IMF reflects no borrowing from the IMF.

South Africa has committed U.S.$2 billion to strengthen the IMF's resources at the G20 Leaders Summit in Los Cabos, Mexico in June 2012. This commitment is in addition to South Africa's existing contributions to the IMF's quota resources, as well as its commitments as a new participant in the IMF's expanded New Arrangements to Borrow (the "**NAB**"). South Africa is one of 40 participants who have ratified the expanded and amended NAB, to which South Africa committed SDR340 million (U.S.$519.9 million). South Africa transferred funds totaling SDR40.5 million to the NAB in 2012. In addition to calls for NAB transfers, South Africa could receive separate calls for quota funding from the IMF as a member of the Financial Transactions Plan (the "**FTP**"). The overall maximum amount of resources that South Africa could be expected to contribute to IMF lending under the FTP is limited to its quota share. South Africa's quota-based contribution to the Fund consists of Rand resources (accounting for 25 per cent. of South Africa's total quota contribution) and promissory notes (accounting for 75 per cent. of South Africa's total quota contribution). Once South Africa has been accepted as a participant in the FTP, it can be called to increases its Rand resources and correspondingly reduce its promissory note resources

South Africa also contributes funds to the Poverty Reduction and Growth Trust ("**PGRT**"), the IMF's instrument for financial support to low-income countries ("**LICs**"). In addition, South Africa contributed its distribution in windfall gold sales profits earmarked by the IMF's Executive Board for the PGRT, effective October 23, 2012.

World Bank

South Africa is a founding member of the World Bank Group that comprises the International Bank for Reconstruction and Development ("**IBRD**"), the International Development Association ("**IDA**"), the International Finance Corporation ("**IFC**") and the Multilateral Investment Guarantee Agency ("**MIGA**"). After reforms that were agreed in 2010 by the World Bank Governors, South Africa's voting power in the IBRD stands at 0.83 per cent. South Africa contributed U.S.$27.2 million to the recapitalisation of the IBRD through the General Capital Increase that was agreed by World Bank Governors in 2010. This recapitalisation was required to strengthen the balance sheet of the IBRD as part of the World Bank Group's response to the global financial crisis.

Cooperation between South Africa and the World Bank is managed under a Country Partnership Strategy ("**CPS**"). The CPS currently in effect has been in operation since January 2008 when it was approved by the Executive Board of the World Bank. One of the major developments under this CPS has been the approval of a U.S.$3.75 billion loan by the World Bank which primarily went to Eskom in 2010 for the construction of the Medupi power station, a 4,800 megawatt dry-cooled coal fired power station in the Limpopo province. Part of the loan also went to financing renewable energy and promoting mitigation of carbon emissions, especially in the railway system. Presently, together with the Government of South Africa, the World Bank is undertaking national consultations with various key government and non-government stakeholders as part of the development of a new CPS for 2013-2016.

In 2010, during IDA replenishment negotiations, South Africa pledged a total contribution of R242 million. In addition to contributing financial resources, South Africa has played a significant role as a representative of LICs in the IDA decision making process, and has encouraged increased funding by IDA in LICs for regional projects.

South Africa joined the private investment arm of the World Bank, the IFC, in 1957, a year after the IFC's foundation. The IFC's committed portfolio in South Africa stands at U.S.$866 million of which U.S.$563 million is outstanding as of July 2012. South Africa partners with the IFC in delivering technical and advisory assistance to organisations in South Africa and the region, with the aim of reducing poverty through private sector growth. The IFC's strategy is to: (i) actively support South African companies going north and going global; (ii) provide advice and financing in under-served niches of the South African market, where IFC can bring added value; (iii) provide technical assistance and related support for small business, with a focus on the informal sector and education; and (iv) support the development of renewable energy and energy efficiency projects.

During the global economic crisis, South Africa has benefited from the IFC's Global Trade Liquidity Pool. South African financial institutions have also partnered with the IFC to facilitate trade finance in Sub-Saharan Africa. The IFC has pledged to support South African Clean Technology Investment Plan through financing amounting up to U.S.$150 million (split between AfDB and IFC), which is part of the U.S.$500 million financial envelope from the Clean Technology Fund ("**CTF**"). The CTF Trust Fund Committee endorsed the South African CTF Investment Plan in October 2009, paving the way for South Africa to move closer to its vision of generating 4 per cent. of its electricity from renewable energy by 2013.

General Agreement on Tariffs and Trade

South Africa is a founding member of the General Agreement on Tariffs and Trade ("**GATT**"), participated in the Uruguay Round of Multilateral Trade Negotiations and acceded to the Marrakesh Agreement that established the World Trade Organisation ("**WTO**") in 1994. It is also part of the generalised system of preferences of Canada, the European Union ("**EU**"), Japan, Norway, Russia, Switzerland, Turkey and the U.S. In October 1999, South Africa signed an Agreement on Trade, Development and Cooperation, known as the European Trade Agreement, with the EU so as to consolidate strategic links between South Africa and its largest trade and investment partner. South Africa's bilateral trading relationship with the EU was elevated to a higher level following the commencement of full implementation of the South Africa EU Trade and Development and Co-operation Agreement, which took effect in May 2004.

Organisation for Economic Cooperation and Development

South Africa enjoys strong partnership with the Organisation for Economic Cooperation and Development ("**OECD**") and participates in numerous programs and committees. Cooperation is most developed in the areas of competition, tax administration, anti-corruption, innovation, agriculture, statistics, public debt management and bond market and economic assessment. South Africa is a signatory to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and mutual acceptance of data ("**MAD**"). South Africa plays a leading role in the region in the area of tax administration and has played a key role in the establishment of the African Tax Administrators Forum, an initiative aimed at enhancing the capacity and capability of African tax administrators and domestic resource mobilisation in general.

G-20

South Africa is a member of the G-20, a permanent forum for informal dialogue on key economic and financial policy issues among systemically significant economies. South Africa is a member of the Financial Stability Board, a structure responsible for the setting of standards and monitoring of progress in the strengthening of financial regulation globally. South Africa is ahead of many countries globally in the implementation of the key financial standards, especially with regard to bank supervision. South Africa was invited to join BRICS in December 2010 and its inaugural participation at summit level was in 2011 at the 3rd BRICS Summit in Sanya, China. One of the agreements signed under this Mechanism is the Extension of Credit in Local Currencies, through which BRICS's development banks explore ways to transact more cost-effectively by issuing loans using BRICS's local currencies.

BRICS

South Africa was invited to join BRICS in December 2010 and its inaugural participation at summit level was in 2011 at the 3rd BRICS Summit in Sanya, China. BRICS's advantage for South Africa is that it complements the work already taking place at a bilateral level with the other BRICS countries. BRICS creates a platform for South Africa to develop instruments for increased trade with these dynamic economies. The recently-signed BRICS Interbank Co-operation Mechanism is an example. One of the agreements signed under this Mechanism is the Extension of Credit in Local Currencies, through which BRICS's development banks explore ways to transact more cost-effectively by issuing loans using BRICS's local currencies. A number of South African companies are already entering the BRICS markets (e.g., Old Mutual, Sanlam, First National Bank, SAB Miller, Standard Bank) and the growth in these markets continues to present opportunities for South African companies.

Commonwealth

In 1994, South Africa rejoined the Commonwealth, from which it had been obliged to withdraw shortly after it became a Republic in 1961. In the Commonwealth, South Africa's participation is limited to promoting economic, social and cultural cooperation and enhancing democracy through the Commonwealth Heads of States and Ministers' meetings.

The Republic of South Africa is also a founding member of the World Trade Organisation, a member, and the first chair, of the New Partnership for Africa's Development, which is a policy framework for Africa's development approved by several African leaders in 2001. The Republic of South Africa promotes the interests of developing countries with regard to poverty reduction, debt relief and the democratisation of international relations through its work at the G-20, participation in the IMF and discussions with the Group of Eight Industrialised Countries ("**G-8**") at their summits.

Regional Arrangements

South Africa is a member of the Southern African Customs Union ("**SACU**"). The other SACU members are Botswana, Lesotho, Namibia and Swaziland (the "**BLNS countries**"). SACU is intended to promote trade among its members within a single customs territory in which tariffs and other barriers are eliminated on substantially all the trade between the member states for products originating in these countries.

There is a common tariff on goods imported from outside the customs union. All import duties or tariffs collected on goods imported from outside the customs union are paid into a common pool. As interim manager of the common revenue pool, South Africa makes quarterly payments from the pool to the BLNS countries according to a formula agreed to in the 2002 SACU Agreement. The current formula takes into account a variety of variables including GDP size, GDP per capita and the level of intra-SACU trade. Efforts are currently underway to negotiate a new revenue sharing arrangement.

All SACU members other than Botswana are also members of the Common Monetary Area ("**CMA**"). The CMA allows for the unrestricted transfer of funds within the monetary area, a common capital market and substantially uniform exchange control regulations with respect to the rest of the world. The Multilateral Monetary Agreement provides for a uniform exchange control border around the four participating countries. Under certain circumstances, South Africa's CMA partners may approach the SARB for short-term financial assistance. They also have access to South Africa's foreign exchange markets.

In 1994, South Africa became a member of the Southern African Development Community ("**SADC**"), which aims to promote regional economic development and stability. The SADC is currently chaired by Angola, and other members of the SADC are Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe. The SADC assigned to South Africa the responsibility of overseeing the finance and investment sector. South Africa's mandate is to facilitate the process of "community building" in the region through gradual, progressive integration of the region's financial systems; to harmonise and coordinate the efforts and key policies of individual governments to permit capital to flow freely within the SADC; and to encourage increased inflows of capital from outside the region.

Since 1995, the SARB has participated in the activities of a separate Committee of Central Bank Governors (the "**Committee**") in the SADC to pursue closer monetary cooperation between regional central banks and to promote financial and economic development. The Committee provides a forum for the exchange of ideas on economic development and financial policies and has contributed significantly to better intra-regional cooperation on issues of central banking.

The Committee of SADC Stock Exchanges, established in 1997, is pursuing initiatives such as harmonizing listing requirements, facilitating dual listings, introducing depository receipts, promoting cross-border investment, harmonizing procedures for clearing and settling stock exchange transactions, introducing entry-level qualifications for market practitioners, and establishing e-mail and internet links among the stock exchanges.

The SADC Finance and Investment Protocol ("**SADC-FIP**") was signed on August 18, 2006 in Maseru and entered into force on 16 April 2010 after two thirds of member states have ratified the protocol. Ratification of the SADC-FIP allows its provisions a legal status, and therefore the ability of members to hold each other accountable for not meeting set targets or standards.

The SADC Protocol on Trade was signed at a Heads of State and Government Summit in Maseru in August 1996, was launched in September 2000 and implementation began in 2001. An important component of the Trade Protocol is the SADC Free Trade Area ("**FTA**"), which was launched on August 17, 2008. By the end of 2008, it was reported that member states had eliminated 85 per cent. of the tariffs on intra-regional trade in goods.

The SADC, COMESA and EAC are in a process of establishing a Tripartite Free Trade Area ("**TFTA**"). The SADC-COMESA-EAC TFTA provides a comparative advantage and a larger market for South African goods. The three regions comprise 26 countries with a combined population of 527 million people, and a GDP per capita average of U.S.$ 1,184. The 26 countries also make up almost 60 per cent. of the AU's population and contribute just over 58 per cent. in terms of GDP.

The Heads of State and Government from three Regional Economic Communities signed a historical declaration launching negotiations for the establishment of the TFTA on June 12, 2011 at the Sandton Convention Centre. The Heads of State also adopted a roadmap establishing the TFTA and the TFTA Negotiating Principles, process and institutional framework.

Public Health

South Africa has a well-established health sector which comprises 8.5 per cent. of GDP. Private sector facilities are of world class standard. Public health facilities include over 4,000 clinics and 400 hospitals throughout the nation and will be progressively strengthened as the National Health Insurance ("**NHI**") program is implemented. The public sector has over 300,000 employees and there are 17,000 registered doctors and over 132,000 nurses. Public health spending was R124 billion in fiscal year 2012, slightly less than private health spending (R130 billion).

Minister of Health Dr. Aaron Motsoaledi, a medical doctor, was appointed in 2009, and subsequently a number of successes have been achieved in the health sector:

- Mortality rates have begun to decline—life expectancy has increased from 51.8 years in 2005 to 60 years in 2011 and infant mortality has significantly declined from 37 deaths per 1000 live births in 2010 to 30 in 2011 (source: Rapid Mortality Surveillance Report 2011);
- The number of people on antiretroviral treatment increased from 1,462,527 million in March 2011 to 1 753,082 million in March 2012;
- Numbers of visits to primary care facilities have increased by 55 per cent., or 45 million visits, over a decade (from 82 million to 127 million) and in 2011/12 topped three visits per uninsured person per annum;
- Health personnel numbers have increased by 30,000 over the past three years and now exceed 313,000 in the public sector;
- The financial position of provincial Departments of Health has improved;
- A national human resource strategy has been published;
- A Green Paper on National Health Insurance has been published and a White Paper is due in the coming months;
- The National Strategic Plan for HIV, STIs and TB 2012-2016 has been launched;
- GeneXpert, a new TB diagnostic tool has been introduced in the public sector;
- Introduction of dual and triple therapy has drastically reduced the mother-to-child HIV transmission rate to 3.5 per cent. in 2010 and 2.7 per cent. in 2011 and continues to decline;
- Pneumococcal and rotavirus vaccines are being offered to all South African children to protect against pneumonia and diarrhea; and
- Significant price reductions in antiretroviral ("**ARV**") drugs have been achieved.

HIV, AIDS and Tuberculosis ("TB")

The socio-economic impact of the HIV and AIDS epidemic in the Republic of South Africa is significant and the National Government has made the curtailment and treatment of this disease a high priority. This is part of the multi-pronged strategy to improve public health services which also includes hospital revitalisation (64 hospitals are currently being built or upgraded), increasing the numbers of public health workers and levels of remuneration of such workers, the introduction of new-generation child vaccines as well as improved infectious disease and TB control programmes.

A multi-sectoral approach aims to improve prevention programs and mitigate the impact of AIDS-related morbidity and mortality. The National Strategic Plan for HIV, STIs and TB 2012-2016 (launched in December 2011) aims to build on achievements made in HIV, TB and STI prevention, treatment and care and address social and structural barriers that increase vulnerability to HIV, TB and STI infection and increase protection of human rights. The plan consists of four strategic objectives with numerous sub-objectives and proposed interventions. The broad groups of intervention are:

- prevention;
- sustain health and wellness Address social and structural drivers; and
- human rights and access to justice.

The primary goals were to reduce the rate of new HIV infections by 50 per cent., initiate at least 80 per cent. of eligible patients on antiretroviral treatment ("**ART**"), and reduce the number of new TB infections and deaths by 50 per cent. It provides an appropriate package of treatment, care and support services, which includes counselling and testing services, healthy lifestyle intervention and nutritional support in order to meet these targets. A new National Strategic Plan ("**NSP**") on HIV/AIDS and TB 2012-16 will be launched in December 2011.

Spending on HIV and AIDS has grown rapidly to around R23 billion per annum as at March 31, 2012. The 2010-2011 National Budget added an additional R1.1 billion to the Comprehensive HIV and AIDS Grant to increase access to ART in light of an upward revision of the recommended CD4 count threshold for treatment.

Estimates of the number of people infected with HIV in the Republic of South Africa vary according to the information supplied by the source in question. Stats South Africa estimates that the number of new infections as of mid-year 2011 was 380,500 or 0.75 per cent. of the population. HIV infection rates are declining due to prevention and an increase in treatment, which is primarily attributed to a recent increase in the number of facilities providing Anti-Retroviral Treatment ("**ART**"). The Actuarial Society of South Africa estimates that the change in the number of new infections in 2008 decreased by 1.5 per cent. as compared to 2007, which is the tenth consecutive year since 1998 that the number of new infections has decreased Stats SA has estimated that, by mid-year in 2011, 5.38 million or 10.6 per cent. of the population was living with HIV in South Africa.

The highest prevalence rates are found in the public sector pre-natal groups. Pre-natal surveys do suggest, however, that national prevalence rates are leveling off. Prevalence rates vary substantially throughout provinces, with KwaZulu-Natal (39.1 per cent.) being the highest and Western Cape (15.1 per cent.) the lowest, as measured among pre-natal clinic attendees during the sample period 2004-2006. Variations also exist within districts in provinces.

By end of March 2012, approximately 1.7 million people were on ART in South Africa and this is planned to increase to three million within the next three years. In his National Address on World Aids Day (1 December 2009), President Zuma announced drastic changes to the National Government policy on the treatment of HIV/AIDS. Effective from April 2010, all HIV positive children under the age of one will receive free ART, regardless of the level of their CD4 count. All pregnant HIV positive women with a CD4 count of 350 or less, or with HIV symptoms (regardless of their CD4 count level) will have access to ARTs. Previously such women were only eligible when their CD4 count levels were less than 200. All TB patients with HIV will receive ART if their CD4 count levels are 350 or less. In the course of 2011, President Zuma expanded the ART policy to all HIV-positive persons with a CD4 count of 350. There is some recent evidence that widespread treatment is beginning to turn around national mortality and life expectancy indicators.

The Department of Health has implemented the Directly Observed Treatment Short-Course Strategy, promoted by the International Union against TB and the World Health Organisation. Further steps being taken to strengthen the strategy to combat TB include the tracing and treatment of treatment defaulters to improve cure rates, the hospitalisation of MDR TB patients and the treatment of such patients with more expensive second line drugs. From 2010 onward, all HIV positive persons with TB are placed on full ART for life.

Provisions have been made for a mass national vaccination campaign to reduce the incidence of measles and to introduce new generation child vaccines to prevent pneumonia and diarrhea. The Department of Health has also introduced a series of interventions to reduce maternal and child morbidity and mortality. Recent progress in preventing mother-to-child HIV transmission (dual and triple prophylaxis) will assist in reducing child mortality. Child nutrition is improving partly due to the availability of social grants (over 15 million South Africans are monthly recipients, mainly children and elderly). School feeding schemes are available to all school children at selected primary and secondary schools.

Stats South Africa has estimated that by mid-year in 2010, 5.24 million or 10.5 per cent. of the population was living with HIV in the Republic of South Africa. According to the National HIV and Syphilis Antenatal Sero-Prevalence Survey (2009), the Department of Health estimates that there were an estimated 5.63 million adults and children infected with HIV and AIDS in the Republic of South Africa.

By June 2011, approximately 1.57 million people were on ART in the Republic of South Africa and this is planned to increase to three million within the next three years.

By 2009, 96 per cent. of public health facilities offered voluntary counselling and testing services which is a marked improvement from the 64 per cent. of facilities offering these services in 2005. The Health Ministry is currently embarking on a large scale HIV counselling and testing program and is attempting to increase condom distribution from 400 million to 1 billion per annum.

The epidemics of tuberculosis and HIV are linked, with 70 per cent. co-infection rate of tuberculosis patients being HIV positive in Southern Africa. The high overall prevalence of HIV in the Republic of South Africa has thus contributed to an increasing incidence of active tuberculosis, including multi drug resistant tuberculosis and extreme multi-drug resistant tuberculosis. South Africa has experienced a steady increase in the number of TB infections. There has also been an increase in Multi Drug Resistant TB ("**MDR TB**") and Extremely Drug Resistant TB ("**XDR TB**"), although together these variants constitute less than 1 per cent. of TB infections.

*National Health Insurance ("**NHI**")*

The NHI is one of the ten key priorities of the health sector Program of Action. It is to be implemented in phases from 2012 over a 14-year period. The first phase will focus on strengthening the public health sector. The Green Paper on NHI was released in August 2011 for public comment, In February 2012; the Minister of Health announced ten pilot NHI districts. These are OR Tambo (Eastern Cape), Thabo Mofutsanyane (Free State), City of Tshwane (Gauteng), uMgungundlovu and Umzinyathi (KZN), Vhembe (Limpopo), Gert Sibande (Mpumalanga), Dr KK Kaunda (North West), Pixley ka Seme (Northern Cape) and Eden (Western Cape). Kwa Zulu Natal has added Amajuba district as a pilot site. The districts were chosen based on the results of audits of all healthcare facilities as well as the demographic profiles and key health indicators. The NHI's objective is to put in place necessary funding and health service delivery mechanisms that will enable the creation of an efficient, equitable and sustainable health care system in South Africa. The NHI aims to strengthen and build quality into the health care system through adherence to standards that will cover, *inter alia*, infection prevention and control; improvement of patient safety and availability of medicines. The first phase will involve improved primary health care services in rural areas and under-served communities and an expanded program of hospital construction and revitalisation.

In preparation, changes have been made to the equitable share formula in order to allow for a more comprehensive health component. Included are subcomponents for primary health care and hospitals. A conditional grant was created in fiscal year 2013 to test innovations (e.g., contracting with GPs and strengthening revenue management at central hospitals) in pilot districts in preparation for NHI implementation. Legislative amendments will be made to create a fairer tax regime for medical aid scheme contributions. The National Treasury is preparing a discussion document on financing aspects of NHI for public comment in the coming months.

The National Government intends to improve primary health care as part of an enhanced health care system. Areas that are being considered are as follows: district-based clinical specialist support teams, school-based primary health care services, family health teams (including municipal ward-based outreach services, and district-based contracts with doctors (such as GPs and multidisciplinary group practices). Another matter under consideration is the alignment of the procurement of medicines by bulk buying to enable cheaper prices. Furthermore, private sector management skills could be brought into the public sector to improve service delivery.

South African Economy

The Republic of South Africa has the most developed and largest economy in Sub-Saharan Africa. The South African economy accounts for a third of Sub-Saharan Africa's GDP.

The Republic of South Africa's long-term economic expansion has been supported by sound economic policies, healthy public finances and resilient financial institutions pursued steadily over the past 18 years. The growing economy, robust regulatory environment, openness to trade and developed capital markets provide favourable conditions for continued investment and growth in the period ahead.

The sound banking system, low public debt levels and prudential regulations on household debt levels have insulated the nation from the worst effects of the global financial crisis. Weakness in the global economy has dampened domestic growth. However, growth is expected to increase over the next three years, supported by resilient household consumption growth, sustained infrastructure investment spending and a gradual recovery in private fixed capital formation. South Africa features a robust regulatory environment, openness to trade, developed capital markets and an attractive position as a gateway to Africa.

The economy has a fast growing and sophisticated financial sector and wholesale and retail trade, catering and accommodation sectors, as well as a developed manufacturing sector. Financial markets are deep and liquid and both equities and government bonds are actively traded by domestic and international investors.

The country is resource rich; the Republic of South Africa is the world's largest producer of platinum and chromium and holds the world's largest known reserves of manganese, platinum group metals, chromium, vanadium and alumino-silicates. The World Economic Forum Global Competitiveness Report 2012 ranks South Africa third overall out of 144 countries for financial market development, whilst the 2013 UNCTAD World Investment Report noted South Africa was the second largest destination for foreign direct investment in the region after Nigeria.

With the most developed industrial and financial capabilities on the African continent, the Republic of South Africa has an important role in the integration of regional policies, markets, finance and infrastructure. Outwardly oriented South African companies are among the largest sources of foreign direct investment in Africa and the country's development financing institutions are playing an increasing role in the funding of regional infrastructure investment. UNCTAD's 2012 World Investment report showed South Africa was the third largest investor in Least Developed Countries, behind China and India. In a report dated 19 September 2012, PricewaterhouseCoopers also noted that South African banks account for 40 per cent. of Africa's assets and its insurance sector represents 70 per cent. of all premiums in Africa.

In 2012, South Africa officially became a member of the BRIC countries (Brazil, Russia, India and China), as an acknowledgement of the economy's size and regional importance. It is likely that this will lead to closer economic ties between BRICS countries.

The legacy of apartheid era politics and economics is still felt today, despite the progress achieved. The Gini coefficient, which is a measure of economic inequality where 0 indicates no inequality and 1 absolute inequality, was equal to 0.64 for South Africa in 2009, among the highest in the world.

Although, the poor are better off in absolute terms under South Africa's new constitutional dispensation, thanks in large part to government's social spending, income inequality remains high, due largely to high unemployment. High rates of unemployment among black South Africans, the less educated and women and individuals from more rural provinces still reflect the impact of the apartheid system on education, income and settlement patterns. For example, as of September 30, 2012, unemployment among the economically active white population was 5.9 per cent., whereas the unemployment rate among the economically active black population was 29.1 per cent.

A history of colonialism and apartheid era politics and economics has left a legacy of inequality still felt today. The Gini coefficient, which is a measure of inequality where 0 indicates no inequality and 1 absolute inequality, was equal to 0.67 in 2008, among the highest in the world. The impact of the apartheid system on education, income and settlement patterns is reflected in the high rates of unemployment in the Republic of South Africa among Africans, the less educated, women and individuals from more rural provinces. For example, as of September 2011, unemployment among the economically active white population was 5.6 per cent., whereas the unemployment rate among the economically active black population was 28.9 per cent.

Unemployment (and youth unemployment in particular) remains a critical challenge. Only 41 per cent. of the adult population (ages 15 to 64) work, either in the formal or informal sector, and employment has yet to recover the 1 million jobs that were lost as a result of the global financial crisis of 2008 and subsequent domestic recession. Formal sector non-agricultural employment has recovered to levels of employment reached prior to the global financial crisis of 2008, but these recent gains have not kept pace with the growth of the working age population, leaving a structural employment backlog. Currently the unemployment rate for 15-34 year olds is nearly 36 per cent., with young people below the age of 35 accounting for nearly 71 per cent. of the unemployed.

Progress is being made in restoring imbalances, albeit slowly. From September 2008 to September 2012, there was a 20.7 per cent. rise in employment of black South Africans between the ages of 15 to 65 years, the largest percentage increase of any racial group. The long term labour force participation rate has increased from 48 per cent. in 1995 to 55.5 per cent. as at September 30, 2012 as more women, Africans and youth have entered the labour market, although this remains below a pre-crisis peak of 58 per cent. in 2008. There is also a small but rapidly growing black middle class. A study by the Bureau of Market Research at the University of South Africa estimated the Republic of South Africa's emerging black middle class stood at 9.3 million individuals in 2007, a 47.6 per cent. increase from 6.3 million in 2001.

Low domestic savings, inadequate investment in economic infrastructure, skills shortages, the efficient delivery of government services and currency volatility are other challenges. The key challenge for South Africa is to achieve higher levels of inclusive growth that raises employment and reduces inequality.

The administration's policies are geared to promote employment and growth, which it views as crucial for redressing the structural inequalities of the South African economy. The National Development Plan, endorsed in September 2012 by the Cabinet, outlines a long term set of structural reforms to eliminate poverty, raise growth and enhance competitiveness, through improving the quality of education, skills development and innovation, and building the capability of the state to implement policy and deliver services effectively.

The National Development Plan sets out ten "critical actions" on which government policy can proceed in partnership with the private sector, trade unions and civil society:

- A social compact to reduce poverty and inequality, and raise employment and investment;
- A strategy to address poverty and its effects by broadening access to employment, strengthening the social wage, improving public transport and raising rural incomes;
- Steps by the state to professionalise the public service, strengthen accountability, improve coordination and prosecute corruption;
- Boost private investment in labour-intensive areas, competitiveness and exports, with adjustments to lower the risk of hiring younger workers;
- An education accountability chain, with lines of responsibility from state to classroom;
- Phase in national health insurance, with a focus on upgrading public health facilities, producing more health professionals and reducing the relative cost of private health care;
- Public infrastructure investment to reach 10 per cent. of GDP financed through tariffs, public-private partnerships, taxes and loans and focused on transport, energy and water;
- Interventions to ensure environmental sustainability and resilience to future shocks;
- New spatial norms and standards—densifying cities, improving transport, locating jobs closer to where people live, upgrading informal settlements and fixing housing market gaps; and
- Reduce crime by strengthening criminal justice and improving community environments.

Sectoral strategies and priorities identified in the National Development Plan will be translated into practical programs and policies over time, drawing on the capacity and initiative of both the public and private sectors.

In the nearer term, the National Government's New Growth Path includes policies to accelerate growth and employment, focusing on job-creation targets and sector-based initiatives. Jobs drivers include substantial public investment in infrastructure, expansion of labour-absorbing sectors such as agriculture and light manufacturing, "green economy" initiatives and support for rural development and regional integration.

The commitment to enhancing growth potential is reflected in government's fiscal allocations. South Africa has embarked on a large infrastructure investment program, with R844.5 billion allocated to public sector projects during the next two fiscal years. The program has a particular focus on network industries including energy, transport and water infrastructure. Over R650 billion has been allocated to education over this period to improve the skills levels of South Africans and boost future employment, while R25 billion over the next six years has been allocated towards a range of initiatives that promote competitiveness.

The NGP commits to prioritise the expansion of network infrastructure, industrial policy to promote higher-value added exports, skills development and interventions to raise youth employment, small enterprise promotion, regional integration and green economy initiatives, as well as the development of rural economies. This is expected to create both direct and indirect employment and investment opportunities for South Africans.

The most recent MTBPS designated R802 billion to improve the country's infrastructure over the next 3 years (fiscal 2013 to fiscal 2015), with a particular focus on network industries including energy, transport and water. Over R650 billion has been allocated to education over this period to improve the skills levels of South Africans and boost future employment, while R25 billion over the next six years has been allocated towards a range of initiatives that promote competitiveness.

GDP

Between 1994 and 2011, real GDP growth averaged 3.3 per cent., but average growth rose to 5.2 per cent. between 2004 and 2007, supported by strong domestic and international growth rates. The 2008 global financial crisis led to 1.5 per cent. contraction in real GDP in 2009, but since 2010, growth has been close to 3 per cent. per year, averaging 2.9 per cent. in 2010, 3.1 per cent. in 2011 and 3 per cent. in the first half of 2012.

Growth has been supported by robust household consumption and government spending. Growth in both private and public sector investment accelerated in 2011 and the first half of 2012. However, the contribution of the private sector to domestic growth has slowed since the first quarter of 2011.

Household consumption growth has slowed from 5.0 per cent. in 2011 to 3.4 per cent. in the first half of 2012. Sluggish job creation, elevated debt and limited growth in real disposable income are likely to weigh on household spending. Private sector investment continues to grow, reaching 2.4 per cent. in the second quarter of 2012, but at a weaker pace than during 2011, as South African corporations refrain from significant new project developments in an environment of weaker business confidence, domestic supply constraints and low levels of demand. In contrast, gross fixed-capital formation by the public sector expanded at an annual rate of 10.9 per cent. during the first half of 2012, supported by strong spending by the state owned companies and in particular Eskom, Transnet and the SANRAL.

Exports contributed positively to the growth rebound, although since 2012, momentum has slowed alongside external demand. Domestic supply constraints, including electricity rationing in manufacturing and disruptions to mining output, have exacerbated the pressure on exports. The recovery in imports has been stronger. Import volumes are now almost 4 per cent. above pre-2009 highs, while exports are 13 per cent. below their highs.

A sharp slowdown in the second quarter of 2012 growth rate to 1.3 per cent. annualised, concentrated in the mining, agricultural and manufacturing sectors, appears to have been driven by a combination of domestic factors such as poor weather conditions, strike activity and key plant closures, as well as Japanese tsunami-related supply disruptions.

Real economic activity in South Africa picked up notably in the second quarter of 2013. Following an annualised growth rate of 0.9 per cent. in the first quarter of 2013, the pace of expansion in real gross domestic product accelerated to 3 per cent. in the second quarter of 2013, primarily driven by the improved performance of the secondary sector. This improved performance may in part be attributable to base effects and, to a lesser extent, to gains in the manufacturing sector. Real output in the primary sector contracted, while growth in the tertiary sector slowed marginally. Despite this firm uptick in economic activity, aggregate real gross domestic product in the second quarter of 2013 was only 2 per cent. higher than in the corresponding period of 2012.

Looking ahead, in the near term, the economy remains vulnerable to slowing global demand, but domestic conditions are largely supportive of growth. Real interest rates are low, the banking sector remains well capitalised and the corporate sector holds high levels of cash on its statements of financial position. The National Treasury projects GDP growth of 2.7 per cent. in 2013, 3.5 per cent. in 2014, and 3.8 per cent. in 2015. The output gap is expected to close in fiscal 2015.

During the prolonged economic expansion between 1999 and 2007, all sectors, with the exception of mining, grew at a robust pace. Real value added by the secondary and tertiary sectors increased briskly at average annualised rates of 3.4 per cent. and 4.2 per cent., respectively, compared to the 0.4 per cent. average annualised growth of mining over the same period.

A recovery in the manufacturing sector lead the growth rebound in 2010, although its contribution has subsided due to weaker external demand. Consequently, by June 2012, manufacturing volumes had not yet regained the levels reached in 2008. Performance has, however, been varied, with strong output growth in petrochemicals, food and beverages and motor vehicles, which contrasts sharply with falling output in the metals subsector.

The financial, real estate and business services sector has been an important positive contribution to overall growth since the recession. The wholesale and retail trade, as well as community services (and in particular general government services) sectors have also been important contributors to growth since then. By contrast, the contribution to growth from mining has been negligible and as of June 2012, mining volumes were 6.8 per cent. below their March 2007 peak. Supply disruptions in the first half of 2012, linked to strike activity, have further significantly reduced output from the sector.

The South African economy is expected to grow by 2.7 per cent. in 2013, 3.5 per cent. in 2014 and 3.8 per cent. in 2015. The events at Lonmin's Marikana mine and the spread of industrial action since August (see "*—Mining and Quarrying*" below) have dented confidence and lowered growth prospects for the remainder of the year. The National Treasury estimates that the total value of production lost to platinum and gold mining strikes and stoppages since the opening of the year has amounted to about R10.1 billion. Declining mining output and the spread of strike activity have depressed activity in related industries including manufacturing, logistics and services, with negative consequences for GDP, tax revenues, exports and employment. The impact will be larger if strike activity is protracted.

An initiative by the President has recently brought together government, business and labour representatives to respond with urgency to the underlying causes of worker discontent and civil unrest, and to find collaborative solutions to address the country's longer-term economic and social needs.

Assuming a return to relatively peaceful industrial relations, domestic conditions are largely supportive of growth. Real interest rates are low, the banking sector remains well capitalised and the corporate sector holds high levels of cash on its balance sheets. Expanding public-sector investment in infrastructure, the activation of new electricity-generating capacity, improving private-sector confidence, relatively low inflation and interest rates, and strong growth in the southern African region should support growth in later years. The National Treasury projects GDP growth of 3.0 per cent. in 2013, and 3.8 per cent. in 2014, according to the 2012 Medium Term Budget Policy Statement.

To improve confidence in the economy, expand trade and investment, increase employment and broaden participation in the economic recovery, government announced in its October 2012 Medium Term Budget Policy Statement that it will target progress in several areas:

- Re-establishing orderly labour relations;
- Investing in strategic infrastructure programs, including energy generation and transport capacity needed to open up new mining and industrial opportunities;
- Strengthening municipal finances, and investing in residential development and urban infrastructure;
- Promoting special economic zones with industrial and export development potential;
- Accelerating youth employment opportunities;
- Improving living conditions for miners and upgrading informal settlements;
- Shifting the export mix towards emerging markets, with particular focus on expanding trade and investment on the African continent; and
- Providing agricultural support and promoting small business development.

The National Government will also step up its efforts to combat waste, inefficiency and corruption. Reforms will focus on procurement systems that prioritises value for money and strengthening the anti-corruption system as a whole. Over the MTEF period, further steps will be taken to strengthen the capacity and efficiency of government departments. Particular attention will be paid to implementing reforms in provincial and municipal infrastructure planning and delivery.

Prudent fiscal management, a flexible exchange rate and an effective inflation targeting regime serve as the macroeconomic foundation for these reforms. These initiatives will take place within a disciplined spending trajectory partially financed through a budget deficit of 4.5 per cent. of GDP in Financial Year 2014, narrowing to 3.1 per cent. of GDP in line with improved economic growth by 2015/16.

The severity of the recession, however, has meant that manufacturing had yet to regain its 2008 peak by June 2011. Manufacturing and agriculture growth rates remain 6.9 per cent. and 5.6 per cent., respectively, below their 2008 peaks. All other sectors were experiencing higher growth rates in June 2011 than in 2008.

The following tables show nominal and real GDP and expenditures for the periods indicated.

GDP Summary

	As at and for the year ended 31 December					As at and for the six-month period ended 30 June
	2007	2008	2009	2010	2011	2012(1)
Nominal GDP (millions of Rand) at market prices	2,016,185	2,262,502	2,398,155	2,661,434	2,964,261	3,126,910
Real GDP (millions of Rand) at 2000 prices	1,751,165	1,814,532	1,786,637	1,838,263	1,895,668	1,932,468
Real GDP Growth (percentages)	5.5	3.6	-1.5	2.9	3.1	3.0
Population (million)	48.3	48.9	49.5	50.0	50.6	51.8
Per Capita GDP (nominal)	41,525	46,072	48,318	53,088	58,549	60,400
Per Capita GDP (real)	36,067	36,950	35,997	36,668	37,442	

(1) First half of 2012, seasonally adjusted and annualised

Sources: SARB and Stats SA

Principal Sectors of the Economy

The following two tables set forth real gross value added and the percentage increase in gross value added for the periods indicated.

Real Gross Value Added by Sector (as constant 2005 prices)

	As of and for the year ended December 31						Percentage contribution
	2007	2008	2009	2010	2011	2012(1)	2012(1)
Agriculture, forestry and fishing	36,301	42,143	41,496	41,701	41,553	41,163	2.4
Mining and quarrying	105,336	99,396	94,057	99,223	99,415	95,708	5.6
Manufacturing	290,246	297,889	267,723	282,215	289,015	294,312	17.1
Electricity, gas and water	35,294	34,196	33,712	34,287	34,749	34,540	2
Construction	48,971	53,145	57,279	57,781	58,241	59,464	3.4
Wholesale and retail trade, catering and accommodation	217,607	219,749	217,074	224,653	234,630	241,972	14
Transport, storage and communication	156,289	162,522	163,999	167,283	172,773	176,191	10.2
Finance, insurance, real estate and business services	349,501	375,276	378,997	386,745	400,382	410,297	23.8
General gov. services	223,284	223,316	242,290	248,817	258,405	264,717	15.4
Personal services	98,247	102,106	101,233	101,127	103,601	105,383	6.1
Gross value added at basic prices	1,561,076	1,619,738	1,597,860	1,643,833	1,692,724	1,723,746	100

(1) The seasonally adjusted first half of 2012 as reported by Stats SA.

	Percentage Growth in Real Gross Value Added by Sector (at constant 2005 prices)					
	For the year ended December 31					As of and for the six-month period ended June 30
	2007	2008	2009	2010	2011	2012(1)
Agriculture, forestry and fishing	3	16	(2)	1	0	2
Mining and quarrying	0	(6)	(5)	6	0	(2)
Manufacturing	5	3	(10)	5	2	5
Electricity, gas and water	3	(3)	(1)	2	1	(1)
Construction	15	9	8	1	1	3
Wholesale and retail trade, catering and accommodation	5	1	(1)	4	4	4
Transport, storage and communication	7	4	1	2	3	3
Finance, insurance, real estate and business services	8	7	1	2	4	3
General gov. services	4	5	4	3	4	3
Personal services	6	4	(1)	0	2	2
Gross value added at basic prices	6	4	(1)	3	3	3

(1) The seasonally adjusted first half of 2012 compared to the first half of 2011 as reported by Stats SA.

Mining and Quarrying

The mining sector made up 5.7 per cent. (in real terms) of total GDP and employed 533,000 people as in the second quarter of 2012, according to the QES. Although the sector's importance to the South African economy has been declining over the long term, it remains an important earner of export revenues. Mineral export sales (including base metals, iron and steel) accounted for approximately 65 per cent. of total export revenues in 2011.

The Republic of South Africa's reserves of platinum, chromite and gold constitute an important global mineral source. According to a 2010 Citigroup report, the Republic of South Africa has the world's largest non-energy mineral reserves, estimated at over U.S.$2.5 trillion. The Republic of South Africa holds approximately 72.4 per cent. of the world's chrome ore reserves and 87.7 per cent. of the world's platinum-group metals reserves. The deposits of manganese ore in the Northern Cape are the largest proven reserve bases in the world, totalling approximately 4 billion tons. The Republic of South Africa also has substantial reserves of other important industrial metals and minerals, including alumino-silicates, antimony, fluorspar, lead, nickel, phosphates, titanium, uranium, vanadium, vermiculite, zinc and zirconium. Furthermore, the Republic of South Africa has large coal deposits in the Witbank Basin, the Vaal Basin and the Waterberg Coalfields.

The Republic of South Africa is currently the world's sixth-largest producer of natural diamonds, measured in carats, after Russia, the Democratic Republic of Congo, Botswana, Australia and Canada. A high percentage of the country's production is of gem and near-gem quality.

The Republic of South Africa's mineral industry is export-oriented. The country is the leading world supplier, and contributes in excess of 30 per cent. of the world's total, of chrome ore, manganese, ferrochrome, platinum-group metals, titanium, vanadium, vermiculite and zirconium. South Africa is also the world's largest supplier of platinum-group metals and accounted for 75 per cent. of new global supply of platinum in 2011 according to Johnson Matthey. Asia accounted for 45 per cent. of all mineral commodity exports (including processed metals); Europe and America accounted for 23 per cent. and 6 per cent., respectively. The most important export destination for the Republic of South Africa's primary minerals remained Europe with 73.0 per cent., while Pacific Rim countries exceeded all other destinations and accounted for 50.5 per cent. of the selected processed minerals.

South Africa's total primary mineral sales increased by 23.5 per cent. to R370.9 billion in calendar year 2011, following similarly strong growth of 24.4 per cent. to R300.3 billion in calendar year 2010, mainly reflecting a rebound in global commodity prices and a rebound in industrial metals volumes demand from emerging economies, in particular China. In volume terms, total mining production slipped by 0.75 per cent. in 2011, hampered by a 4.1 per cent. decline in gold production and largely unchanged volumes in PGMs (which include platinum, palladium, rhodium, ruthenium and osmium). Domestic PGM production was reduced in response to a 450,000oz oversupply globally during 2011, and subsequent lower prices. The decline in gold output is related to structural factors including decreasing ore quality, deepening mine pits which have raised the risks of gold mining, and rising costs (mainly labor and electricity).

The gold-mining sector benefited from increased production following strike activity in the second half of 2012. Production losses due to an underground fire at one of South Africa's major gold mines in the early months of 2013, together with the power outage and production ramp-up at another gold mine, however, partly restrained the growth in gold output over the period. Platinum production continued to recover from the strike-related production stoppages that affected the platinum industry in the second half of 2012.

International commodity prices continued a downward trend in 2012, prompted largely by a slowdown in Chinese industrial production.

Mining production continues to be fairly erratic on a quarter-to-quarter basis. Having increased at an annualised rate of 14.6 per cent. in the first quarter of 2013, the real value added by the mining sector declined by 5.6 per cent. in the second quarter of 2013. Pronounced declines were registered in the production of platinum and diamonds. By contrast, the production of coal and other mining products experienced relatively little during the period under review. Platinum production was hampered by escalating cost pressures, increased safety stoppages and sporadic labour disruptions that emerged during the second quarter of 2013. In addition to infrastructure challenges faced by the industry, production was also negatively affected by unstable ground formations that hindered activity at certain platinum mines in the period under review. Diamond production levels at one of South Africa's largest opencast diamond mines have not yet normalised after severe flooding experienced at the beginning of the year. Coal production, on the contrary, benefited from continual improvements in operational efficiencies at mines.

In the NGP policy document, the government identifies mining as one of the key sectors for the acceleration of domestic industrialisation and the acceleration of job creation. A number of binding constraints to growth that require policy intervention have been identified, including rail and port infrastructure, the stability of energy supply and ambiguous regulatory mechanisms.

Rail infrastructure is to be improved through the upgrading of two critical coal lines (in Waterberg and Richards Bay) to 80 million tons of coal per annum. The Richards Bay upgrade is due to be completed by 2015. Eskom's two new coal-fired stations, due to come on line in 2015 and 2018, should reduce the risk of power shortages and the DMR is currently in the process of amending the Minerals and Petroleum Resources Development Act to further simply the regulatory framework and redefine parts of the legislation that have previously been identified as ambiguous.

The Mining Industry Growth, Development and Employment Task Team (**"MIGDETT"**) was set up in 2008 as collaboration between the Departments of Energy, and Labour and business. MIGDETT's mandate was to recommend short, medium and long term interventions aimed at mitigating against job losses, monitoring and assessing the impact of the global financial crisis on job loss in the mining sector and preparing the sector for economic recovery.

There are a number of structural inhibitors to the mining sector in the Republic of South Africa. In gold, for example, output has been declining steadily since 1994, mainly due to falling grades and the challenges of aging infrastructure in deep mines, a unique phenomenon for South African mines.

Monetary and Financial System

The South African financial system consists of banks and non-bank financial institutions such as investment funds, portfolio management companies, securities investment firms, insurance companies, development funding institutions and pension funds.

*South African Reserve Bank ("**SARB**")*

The SARB is the central bank of South Africa, with its head office in Pretoria and branches in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Port Elizabeth and Pretoria North. The SARB's independence is enshrined in the Constitution and is subject only to acts of Parliament and to regular consultation with the Minister of Finance. The principal responsibilities of the SARB include: formulating and implementing monetary policy; issuing banknotes and coins; acting as banker to the Government; acting as a bank to banks licenced under the Banks Act, 1990; providing facilities for the clearing and settlement of claims between banks; acting as custodian of the country's gold and other foreign reserves; acting as a lender of last resort; conducting open-market operations; supervising banks; supervising large primary co-operative banks, secondary and tertiary co-operative banks collecting, processing and interpreting economic statistics and related information; and formulating and implementing exchange rate policies in cooperation with the Minister of Finance and the National Treasury.

Unlike many other central banks, shares in the SARB are held privately, with none held by the Government. The SARB's share capital was quoted on the JSE from its inception in 1921 until May 2002, when it was de-listed, and is currently held by approximately 630 shareholders, including companies, institutions and individuals. No single shareholder may hold more than R10,000 in nominal value of the SARB's shares. Dividends are paid to shareholders out of net profits at a rate of 10 per cent. per annum of the nominal value of the shares. After certain provisions, 10 per cent. of the SARB's surplus in any year is paid into a reserve fund, and the balance is paid to the National Government.

The SARB is managed by a 15-member board of directors. The Governor and three Deputy Governors of the SARB are appointed by the President for five-year terms. Of the remaining ten directors, four are appointed by the President, with the remaining seven elected by the SARB's shareholders, two of whom represent the interests of commerce and finance, two of whom represent industry, one of whom represents labour, one of whom represents mining and one of whom represents agriculture. These directors hold office for a period of three years. The Governor has a vote on the board of directors and an additional vote to be used only in the event of a tie. The National Government therefore appoints persons controlling most of the effective votes to the board of directors of the SARB.

President Zuma appointed Ms. Gill Marcus as Governor of the SARB with effect from November 9, 2009. Ms. Marcus has extensive knowledge of the SARB, having served as a Deputy Governor from 1999 to 2004. In addition, she served as Deputy Minister of Finance from 1996 to 1999. Ms. Marcus has also served as chairperson of the Joint Standing Committee on Finance and held a number of executive positions in the private sector.

The South African Reserve Bank Act was amended in 2010 (through Amendment Act No. 4 of 2010) to provide mechanisms ensuring that shareholders contribute to the functioning of the SARB without adversely influencing the SARB's decision-making capabilities through group or block formations.

Monetary Policy

The main objective of the SARB's monetary policy has been the pursuit of price stability. This policy forms part of broader macroeconomic policies of the National Government by creating a stable financial environment and improving the standard of living of all inhabitants of the country. The SARB does not have fixed exchange rate targets and allows the Rand to float freely against international currencies.

In 2000, an inflation-targeting monetary framework replaced the SARB's previous approach to monetary policy-making. The previous approach involved the public announcement of guidelines for the growth in the broad money supply, augmented by regular wide-ranging assessments of economic conditions and the outlook for inflation. The current inflation-targeting framework is characterised by the announcement of a numerical target for the inflation rate that is to be achieved over a specified period of time, and is also a broad-based strategy for achieving price stability, centered on an analysis of price developments. In light of the weakening of the relationship between money growth and nominal income growth, monetary policy decisions are guided by the deviation of the expected rate of increase in headline CPI from a specified target range. An important factor in determining monetary policy is the forecast generated by the SARB's macroeconomic models, although monetary policy is not decided mechanistically according to the forecast of economic developments. In the application of inflation targeting as a monetary policy framework, allowance is made for the price effects of serious supply shocks, such as changes in the international price of crude oil, higher food prices resulting from unfavorable weather conditions and inordinate changes in the international exchange value of the Rand. The current inflation target is 3-6 per cent.

Having plateaued at 12 per cent. from early June to early December 2008, the repurchase rate was reduced by 50 basis points to 11.5 per cent. in December 2008, and by a further 450 basis points to 7.0 per cent. by August 2009 and remained at that level to February 2010. Although cost-push pressures in the economy continued to pose risks to the inflation outlook, the MPC decided to keep the monetary policy stance unchanged because the risks to the inflation outlook appeared to be fairly evenly balanced. The frequency of the meetings for most of 2009 changed from bi-monthly to monthly (excluding July 2009) in order to monitor and respond appropriately to the rapidly changing economic environment. However, in the first meeting under the newly appointed Governor Gill Marcus in November 2009, the MPC decided to revert back to its policy of meeting every alternate month, as the global economic environment appeared to have stabilised.

At the July meeting of the MPC, the repurchase rate was lowered by 50 basis points to 5.0 per cent. with effect from July 20, 2012. The decision to cut the repurchase rate was brought about by concerns over continued sluggishness in the domestic economy, aggravated by the protracted problems in the euro area and their possible knock-on effects to the domestic economy. The MPC viewed the accommodative policy stance to be appropriate given the prevailing economic conditions, while remaining consistent with the Bank's price stability mandate and conducive to encouraging growth and domestic investment. Although global and domestic growth conditions weakened further in the subsequent months, the MPC kept the repurchase rate unchanged at its September 2012 meeting. Inflation is expected to increase during the next quarter due to upside pressure expected from food and petrol price increases.

Open market operations entail the buying and selling of securities by the SARB in the open market in order to regulate the conditions in the money market or the level and pattern of interest rates. By injecting or absorbing funds through purchases and sales of securities, the SARB may increase or decrease liquidity in the banking system. Although these transactions are primarily undertaken to achieve long-term monetary objectives, a further objective may be to stabilise temporary money-market fluctuations. Currently, nine primary dealers make markets in government paper, five of which are domestic banks and four of which are international banks. Since its appointment of primary dealers in National Government securities in 1998, the SARB no longer acts as agent for the National Government in buying or selling its securities. The SARB may purchase and sell National Government securities for the SARB's own account, providing it with an effective means of influencing money market liquidity. Other techniques used by the SARB to influence liquidity include purchasing securities outright, varying the amount of National Government bills offered at tender each week, allocating National Government deposits between the SARB and private banks, issuing SARB debentures and entering into foreign exchange swaps with banks.

During 2004 the SARB conducted a review of its money-markets operations, which were last reviewed in September 2001. As a result, on 25 May 2005, following extensive consultations with market participants, the SARB implemented several changes to its refinancing operations with three aims: to streamline the SARB's refinancing operations to make them simpler and more transparent; to encourage banks to take more responsibility for managing their own individual liquidity needs in the market; and to promote a more active money market in South Africa. These changes include, among other things, the announcement of an estimate of the average daily market liquidity requirement by the SARB and the estimated range within which the daily requirement is expected to fluctuate in the coming week on the Wednesday morning prior to the main weekly repurchase auction, and the introduction of standing facilities (previously referred to as final clearing or reverse repurchase tenders) at a spread of 50 basis points above or below the prevailing repurchase rate to accommodate banks with short or long liquidity positions.

However, the central feature of the SARB's operational arrangements—the conduct of repurchase auctions on Wednesdays, with one-week maturity at a repurchase rate fixed at the level announced by the MPC—remains unchanged.

Before the introduction of the changes to the SARB's refinancing operations, the amount of accommodation provided at the main weekly repurchase auction was stable at around R13 billion, which was also the approximate level of the average daily liquidity requirement of the private sector banks. Thereafter, the amounts on offer at the weekly main refinancing auctions varied, with generally higher levels around month-ends and lower levels towards the middle of the month. In order to square off the banks' end-of-day positions, standing facilities and cash reserve accounts were utilised.

Following the squaring off of the oversold forward foreign exchange book in February 2004, the SARB continued to increase its foreign exchange reserves through measured buying of foreign exchange from the market, thereby creating Rand liquidity. The banks' required cash reserve balances with the SARB rose considerably in September 2004 as vault cash was no longer allowed as part of qualifying cash reserves, concluding the phase-out of the vault cash concession which started in September 2001.

The outstanding amount of interest-bearing instruments utilised by the SARB was also raised to drain liquidity from the money market and its composition changed. Debentures with a 56-day maturity were first issued on 1 December 2004, and 56-day reverse repurchase transactions were first conducted on 24 March 2005.

The outstanding amount of South African Government bonds in the SARB monetary policy portfolio has declined over the years and currently amounts to R7.4 billion at the end of June 2012. This followed an agreement between the National Treasury and the SARB on 20 October 2003 which allowed the SARB to restructure and shorten the average maturity of interest-bearing government bonds held in its monetary policy portfolio by conducting cash-neutral auctions.

Amid concerns about increased downside risks to the domestic economic outlook emanating from the uncertain global economic environment, the MPC again reduced the repurchase rate by 50 basis points in March and September 2010, bringing the rate to 6 per cent. At the November 2010 MPC meeting, the repurchase rate was reduced further by 50 basis points to 5.5 per cent. The decision to lower the repurchase rate stemmed from the relative improvement in the inflation outlook, which continued to be supported by weak, though recovering, domestic demand conditions, the appreciating exchange rate of the Rand and a persistent negative output gap. Administered price developments and the possible impact of high wage settlements continue to be viewed as potential threats to the inflation outlook. The repurchase rate was subsequently kept unchanged at a rate of 5.5 per cent. between January and early June 2012. Although the inflation outlook started to deteriorate during this period, with food and oil price developments remaining the major risks to inflation, these risks were mitigated by the uneven growth in the domestic economy and the contagion effects stemming from possible sovereign debt defaults abroad. Having reduced the repurchase rate by 50 basis points in July 2012 to a three-decade low level of 5 per cent. per annum, the MPC kept the policy rate unchanged at this growth-supportive level at each of its seven subsequent meetings. The MPC continued to balance the need to support the fragile economic recovery against the risk of surging inflation.

Short-term money-market rates mainly tracked the sideways movement in the repurchase rate during the first eight months of 2013, while longer-dated instruments began discounting the possibility of policy tightening when the exchange value of the Rand depreciated.

Following its decline from 6.59 per cent. on 22 March 2013 to an all-time low of 5.78 per cent. on 13 May 2013, the daily average yield on the R208 government bond (maturing in 2021) soared to 8.05 per cent. on 29 August 2013. This was triggered by the announcement by the U.S. Federal Reserve of the possible phasing out of stimulus measures which gave rise to higher bond yields across international bond markets, the depreciation in the exchange value of the Rand, inflation concerns and the selling of domestic bonds by non-residents. Given the general upward trend in domestic bond yields during 2013, the currency risk premium on South African government bonds widened from 315 basis points in February 2013 to 348 basis points in July 2013, as yields on Rand-denominated bonds increased more pronouncedly than yields on dollar-denominated bonds. The JPMorgan Emerging Markets Bond Index Plus yield spread above US government bonds fluctuated wider from 259 basis points in January 2013 to 338 basis points in July 2013, as the volatility in global financial markets led to a risk-averse stance among investors. Similarly, the sovereign risk premium on South African government US dollar-denominated bonds in the seven-year maturity range widened from 85 basis points in January 2013 to 150 basis points in July 2013.

The South African Rand was among the emerging-market currencies that were negatively impacted by the tapering remarks of the U.S. Federal Reserve in May 2013. This weighed down the performance of the domestic currency during the second quarter of 2013, together with the decline in the international prices of key South African export commodities, the sizeable fiscal and current-account deficits, weak economic growth, persistent high unemployment levels and ongoing labour union rivalry. The real effective exchange rate of the Rand declined by 11.9 per cent. from June 2012 to June 2013, further improving the external price competitiveness of South African exporters in international markets. In the first half of 2013, the real effective exchange rate was 8.8 per cent. lower than in the corresponding period of 2012.

The year-on-year CPI inflation was 6.2 per cent. in January 2010 and decreased gradually to 3.2 per cent. in September 2010 before rising to 5.7 per cent. in September 2011. The CPI was 5.6 per cent. in October 2012, and up from 5.5 per cent. in September 2012. Inflation is now expected to average 5.6 per cent. in the final quarter of 2012, and 5.6 per cent. for the year. It is expected to average 5.5 per cent. in 2013, and 5.0 per cent. in 2014. Against the backdrop of a relatively benign international inflation environment and subdued global and domestic output growth, domestic headline consumer price inflation remained within the inflation target range for 14 consecutive months up to June 2013, before breaching the upper limit of the target range of 3 to 6 per cent. in July. Headline consumer price inflation accelerated briskly to 6.3 per cent. in July and 6.4 per cent. in August.

In its role of implementing monetary policy, the SARB monitors and influences conditions in the South African money and credit markets and affects interest rates, growth in lending and growth of deposits. The SARB uses open-market operations to determine the amount of liquidity made available to banks on a weekly basis in repurchase transactions. The interest rate for such repurchase transactions is set by the SARB's MPC and has a significant impact on all short-term interest rates in the economy. The monetary policy stance is decided at the bi-monthly meetings of the MPC. There exists, however, a continuous process of review that takes new information and developments into consideration.

Foreign Trade

The Republic of South Africa's imports and exports (including gold) accounted for roughly 54.1 per cent. of GDP in real terms in the second half of 2012.

Following sharp declines in volumes of imports and exports in 2009, both export and import volumes have recovered, although the pace of growth in imports has outstripped export volumes, resulting in a balance of payments deficit. In the first half of 2012, export volumes grew 2.6 per cent. from the same period in 2011; import growth was 9.3 per cent., from average growth in 2011 of 5.9 per cent. in exports and 9.7 per cent. in imports. In value terms, in the year to June 30, 2012 annual growth in imports rose 21.4 per cent. and exports rose 6.5 per cent.

Since the recession in 2009, domestic demand has strengthened at a faster pace than external demand, resulting in a more rapid increase in import volumes relative to exports and a deterioration of the trade balance. The average volume of imports increased by almost one-third between the low point of the recession in 2009 and the first half of 2012, compared with an increase of 14 per cent. for exports. The volume of imports is now almost 4 per cent. above pre-crisis highs, while exports are still 12 per cent. below their highs prior to the crisis.

The recent decline in export volumes has been driven by domestic supply constraints, including electricity rationing in manufacturing and severe disruptions to mining output due to industrial action and wage disputes.

A worsening of the balance of payments has exacerbated this impact on the trade balance, although robustness in the price of gold has proved something of a cushion to these impacts. Export prices, excluding gold, rose just 5.4 per cent. in the first half of 2012, compared with the same period a year earlier, whilst import prices expanded by 8.4 per cent. The terms of trade have declined by almost 5 per cent. since their peak in the third quarter of 2010.

As a consequence the trade balance has shifted to a substantial deficit, reaching R86 billion in the year to August 2012—its highest level since the 1990s. This is significantly higher than the deficit since the crisis, which averaged 1 per cent. of GDP in 2010 and 0.6 per cent. of GDP in 2011.

The Republic of South Africa's exports have traditionally consisted largely of primary products, especially mining products, with gold, diamonds, platinum group metals, coal and iron exported in large quantities. Since 2012, the fastest growing markets for South African exports have been Africa and Asia.

The value of exports increased at a much more muted pace of 6.5 per cent. in the first six months of 2012 compared with same period in 2011, with a broad-based moderation across major export categories. Excluding the strike-affected precious metals category, exports grew 10.8 per cent. Exports of coal and chemical products remained robust, while exports of platinum and base metals declined by 29 per cent. and 7.8 per cent. respectively in the first six months of the year.

The pattern of trade in the first half of 2012 shows a broad-based decline in exports to the Euro zone and Japan, flat exports to the U.S. and growing exports to China and the Southern African Development Community ("**SADC**"). In the first six months of the year, exports to SADC rose by 21.6 per cent. compared with the same period last year, with strong growth in exports to Zambia (38.5 per cent.), Mozambique (4.7 per cent.) and Zimbabwe (13.5 per cent.) leading the increase in total SADC exports. Disruptions to platinum output impacted negatively on trade with Germany, Japan and the U.S.; while in China higher demand for coal offset lower steel imports.

SADC is South Africa's third largest export market behind the EU and China, with 12.3 per cent. of South African exports to the region in the first six months of 2012. However, the share of manufactured exports to the region was much higher (21.4 per cent.) during this period and has been increasing at a rapid rate over the past few years. This is primarily driven by exports of steel, chemical products, machinery and appliances, especially equipment used in mining. If current trends persist, the SADC region will overtake Europe to become the biggest market for South African manufactured goods in the next five years.

The EU remains the largest destination for South African exports, with approximately R152 billion worth of goods exported to the EU in 2011, representing 22 per cent. of total exports. Within Europe, Germany (28.3 per cent.) and the UK (19 per cent.) are the most important trading partners. Exports to the PIIGS grouping of countries, currently at the centre of the region's sovereign debt crisis, constitute a relatively small share of total South African exports, and the Republic of South Africa has been fortunate to escape the direct impacts of the economic contraction in some of these countries. However, the Republic of South Africa has not been able to escape the EU-wide impact of the crisis which has seen growth moderate sharply in the major economies (notably Germany). Growth in exports to the EU moderate to 6 per cent. in the first half of 2011 compared with 11 per cent. in the first half of 2010. The U.S. remains an important export destination, with around 9 per cent. of exports going to this country.

China is South Africa's single largest trading partner absorbing 12.4 per cent. of South Africa's exports on average in 2011. In the six months of 2012 exports to China again supported overall export performance, with exports to the country growing by 9 per cent., significantly higher than overall export growth of 6.5 per cent. China's importance as a trade partner for the Republic of South Africa has increased considerably in recent years, and the resilience of the Chinese economy has provided significant support to South African exports over the past few years. China was one of the few economies to which exports expanded during the recession.

The U.S. remains an important export destination, with around 9 per cent. of exports going to this country.

Imports

As the domestic economy recovered in 2010 and 2011, led by consumption expenditure, imports again expanded, rising by 7.4 per cent. in 2010 and 14.4 per cent. in the first half of 2011 and 21.4 per cent. in the first six months of 2012.

The 22.0 per cent. higher import bill in 2011 primarily reflected an increase in import volumes, even though import prices also rose materially over the period. Merchandise import volumes advanced by 12.8 per cent. in 2011 as the steady increase in real gross domestic expenditure led to an increase in the demand for imported goods. In fact, the rate of increase in import volumes exceeded that of real gross domestic expenditure, raising the country's import penetration ratio from 21.8 per cent. in 2010 to 23.6 per cent. in 2011—this ratio recently peaked at 25.9 per cent. in 2007 when an economic growth rate of 5.5 per cent. was registered.

The value of imports increased by 21.4 per cent. in the first half of 2012 compared with same period in 2011, driven by strong increases in mineral products (mainly oil), machinery and appliances, vehicles and original equipment.

Public Enterprises

The National Government owns a number of public enterprises (otherwise known as state-owned companies, or "**SOCs**"). The ministers under whose departments these enterprises fall act as the "Executive Authority" over these entities, taking up the role of shareholder on behalf of government. The ministers that act as the Executive Authority include the Minister of Public Enterprises, the Minister of Communications, the Minister of Energy, the Minister of Transport and various other ministers of the National Government.

The Executive Authority oversees the affairs of the public enterprise, including the appointment of board members, the entering into of shareholder compacts with the public enterprise, approving major transactions, and the monitoring of performance. The National Treasury is responsible for financial oversight over all the public enterprises, including the review of major transactions, funding requests and applications for guarantees.

Parliament plays a significant role in the oversight of public enterprises through the two Parliamentary committees assigned to such oversight. These committees are the Portfolio Committee on Public Enterprises, which is responsible for sectoral and shareholders' oversight, and the Select Committee on Public Accounts, which is responsible for financial oversight.

The infrastructure investment programs of the public enterprises are aimed at delivering infrastructure to enhance economic growth and alleviate poverty. Public enterprises are expected to invest a total of R513.0 billion over the next five fiscal years in infrastructure. The main public enterprises responsible for delivering this growth are the electricity utility Eskom, the freight transportation company Transnet, the national oil company the Petroleum, Oil and Gas Corporation of South Africa SOC Ltd (PetroSA), which is a subsidiary of the Central Energy Fund, the ACSA and the SANRAL.

The National Government has issued formal contractual guarantees in respect of certain indebtedness of the public enterprises, *inter alia* to support the capital investment programs of the public enterprises. Such guarantees are issued in accordance with the PFMA. All guarantees are issued jointly by the Minister of Finance and Executive Authority for the relevant public enterprise in terms of the PFMA. The National Government's aim is for public enterprises to borrow on the strength of their own balance sheets without explicit recourse from the National Government. However, if a clear need for shareholder support is identified, a guarantee for a public enterprise may be provided on application. In such applications, the public enterprise is required to provide a sound business case, ensuring long-term financial sustainability. In extending guarantees, the National Government remains mindful of the guideline of 60 per cent. of GDP that it has been set for total debt, provisions and contingent liabilities.

SHAREHOLDER

The Government of the Republic of South Africa is the sole shareholder of Transnet, owning its entire issued share capital of 12,660,986,310 ordinary shares as at 30 September 2013. Transnet is defined as a Schedule 2 state-owned enterprise as envisaged by the PFMA and consequently reports to its shareholder through the Department of Public Enterprises.

Shareholder Compact

The Shareholder Compact between Transnet and the Government was signed on 25 June 2013 in respect of Financial Year 2014. The Shareholder Compact is required by Treasury Regulation 29. The Shareholder Compact confirms Transnet's mandate to assist in lowering the cost of doing business in the Republic of South Africa and enabling economic growth through providing appropriate ports, rail and pipeline infrastructure and operations in a cost effective and efficient manner and within acceptable benchmark standards. The key performance areas include capital and financial efficiency, operational efficiency and effectiveness, infrastructure investments as well as developmental objectives. The targets set are measured quarterly and are reported quarterly to the shareholder.

REGULATION

Set out below is a summary of material information concerning the regulation of Transnet's business. This description does not purport to be a complete description of all applicable laws and regulations and should not be read as such.

Transnet is a public company whose sole shareholder is the Government. As a public entity, Transnet is governed by many laws and regulations. This section discusses certain material laws and regulations that govern the everyday activities of Transnet and requires that Transnet be issued with certain operating licences.

Legislation Affecting Public Entities

Three significant laws applicable to Transnet are the Legal Succession Act, the PFMA and the SA Companies Act. Transnet is established under the terms of the Legal Succession Act as a company that is owned by the Government, and its financial affairs are governed by the PFMA. The object of the PFMA is to secure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the institutions to which it applies. Section 66(3)(a) of the PFMA allows Transnet (through its "accounting authority"), as a Schedule 2 public entity, to borrow money, issue a guarantee, indemnity or security, or enter into any other transaction that binds Transnet to future financial commitments. However, Transnet (through its "accounting authority") may not delegate such a power without the prior written approval of the Minister.

Section 56(1)(a) of the PFMA allows Transnet's accounting authority to delegate any of its functions to its Group Chief Executive, and other officers of the company, including the authority to sign certain documents on behalf of Transnet. The accounting authority for Transnet is its Board of Directors.

Companies Act

Transnet is subject to the applicable provisions of the SA Companies Act which replaced the Companies Act, 1973. The SA Companies Act came into effect on 1 May 2011. Under the SA Companies Act Transnet is defined as a State-Owned Company and as such its memorandum of incorporation is deemed to have been amended to change its name to end with the expression SOC Ltd from the effective date. Transnet is subject to the enhanced accountability and transparency provisions of the SA Companies Act. It may, however, apply to the Minister of Trade and Industry to be totally, partially or conditionally exempted from one or more provisions of the SA Companies Act on the grounds that those provisions overlap or duplicate an applicable regulatory scheme established under any other national legislation.

During the period from promulgation of the SA Companies Act until the its commencement, Transnet assessed its level of compliance and where necessary developed controls for compliance with the Act. Transnet has also reviewed structures and governance arrangements with a view to ensuring alignment with the Act.

Occupational Safety and Environmental Regulation

Transnet and its operating divisions are subject to a number of safety and environmental regulations. These include the Occupational Health and Safety Act, 1993 as amended ("**OHSA**"), the Waste Act, the National Railway Safety Regulator Act, 2002 as amended (the "**National Railway Safety Regulator Act**") and the Hazardous Substances Act, 1973 (the "**Hazardous Substances Act**") (See *"Risk Factors- Transnet may be required to incur significant costs in order to comply with environmental laws and regulations"*).

Transnet's operating divisions employ tens of thousands of employees. Some activities carried out by these operating divisions expose employees to various health and safety risks. As a result, Transnet is required to comply with various regulations that are aimed at protecting the health and safety of its employees while at work against hazards to their health and safety arising out of or in connection with their activities at work. Under the OHSA, Transnet is required to have health and safety representatives in the workplace. The National Railway Safety Regulator Act requires railway operators to implement and maintain adequately resourced and documented safety measures that are consistent with the South African Standard for Railway Safety Management.

Under the terms of the Hazardous Substances Act, Transnet is required to obtain licences to use certain hazardous substances in its operations. Licences are also required for Transnet to keep or install certain groups of hazardous substances on its premises.

The Hazardous Substances Act further categorises hazardous substances into different categories. Under the terms of the Waste Act, Transnet is required to submit environmental assessment reports for carrying on certain activities that affect the environment. The Waste Act provides for co-operative environmental governance by establishing principles for decision-making on matters affecting the environment.

Employment Legislation

Transnet, as an employer, is required to comply with the Labour Relations Act, 1995 (the "**LRA**"), the Basic Conditions of Employment Act, 1997 as amended (the "**BCEA**") and the Employment Equity Act, 1998 as amended. The LRA aims to advance economic development, social justice, labour peace and the democratisation of the workplace. The LRA further aims to give effect to and regulates the fundamental rights (including the right to food, water and social security) conferred by section 27 of the Constitution of the Republic of South Africa, 1996. Transnet is expected to comply with the requirements of affirmative action in employing all levels of employees. Furthermore, Transnet is required to comply with fair labour practices and regulate the basic conditions of employment as determined in the BCEA. As a SOC, Transnet is also required to fully comply with the BBBEE Act and the codes issued thereunder. As part of ensuring that Transnet complies with the BBBEE Act, it aims to promote economic transformation in its activities in order to enable meaningful participation of black people in the economy as required by the BBBEE Act. (See "*Risk Factors—Transnet is subject to risks associated with a unionised workforce and may be adversely affected by changes in labour laws*").

Transnet Pipelines

Transnet Pipelines operates under the regulatory framework of the Petroleum Pipelines Act, the Gas Act, and the National Energy Regulator Act, 2004, as amended (the "**National Energy Regulator Act**"). The aim of the Petroleum Pipelines Act is to establish a national regulatory framework for petroleum pipelines; to establish a Petroleum Pipelines Regulatory Authority as the custodian and enforcer of the national regulatory framework and to provide for matters that are ancillary thereto. The Gas Act aims to promote the orderly development of a piped gas industry, establish a national regulatory framework; establish a National Gas Regulator as custodian and enforcer of the national regulatory framework and provide for matters that are ancillary thereto. The National Energy Regulator Act endeavours to establish a single regulator to regulate the electricity, piped gas and petroleum pipeline industries and to provide for matters that are ancillary thereto. More specifically, section 3 of the National Energy Regulator Act provides for the establishment of NERSA. Under section 4 of the National Energy Regulator Act, NERSA is mandated, inter alia, to undertake the functions of the Petroleum Pipelines Regulatory Authority and the Gas Regulator, set out in section 4 of the Petroleum Pipelines Act and the Gas Act, respectively. In achieving its mandate, NERSA assumes the role of custodian and enforcer of the national regulatory framework in the petroleum pipelines and piped-gas industries.

Under the Petroleum Pipelines Act, Transnet Pipelines is required to obtain licences for construction and operation of petroleum pipelines, loading facilities and storage facilities, which licences are issued by NERSA. A licence issued under the Petroleum Pipelines Act is valid for a period of 25 years and may be renewed.

Transnet has been granted a petroleum pipeline operating licence as well as a construction licence for the NMPP. In November 2009, NERSA granted Transnet a licence for its gas transmission pipeline.

Transnet submitted an application to amend its petroleum pipeline operating licence to NERSA to include in its operating licence, the completed 16-inch pipelines which became operational in the first half of the 2011 calendar year. NERSA has considered this application and amended the petroleum pipeline operating licence to include these 16-inch pipelines. Such assets have been included in the RAB, and accordingly, Transnet is earning a return on these assets.

On 8 April 2011, Transnet applied to NERSA for an amendment to its existing construction licence to include the construction of a 12-inch pipeline and the re-commissioning of an 18-inch pipeline to join the 24 inch NMPP trunk line. Both the 12-inch and the 18-inch pipelines are located at Island View, in Durban. The construction licence amendment was granted by NERSA on 18 August 2011.

On 1 March 2011, Transnet applied to NERSA for an amendment to its existing operating licence to include the following infrastructure:

- the 24-inch trunk line from Durban to Jameson Park and the 12-inch and 18-inch pipelines located at Island View, which came into operation in January 2012;

- the Inland Terminal at Jameson Park, with a planned date of operation of September 2014; and
- the Coastal Terminal in Durban, with a planned completion date of September 2013.

On the 27 September 2012 NERSA amended the operating licence to include the listed assets. However, if assets are expected to be in operation during the tariff application period, such assets are included in the RAB as part of the tariff application and a return on such assets is requested.

Ports Act

The Ports Act provides for the administration of certain ports by the Transnet National Ports Authority. In this regard, the Ports Act treats Transnet National Ports Authority as a separate entity with specific powers. The main function of Transnet National Ports Authority is to own, manage, control and administer ports to ensure their efficient and economic functioning. The activities of Transnet National Ports Authority are monitored by the Ports Regulator to ensure that Transnet National Ports Authority performs its functions in accordance with the Ports Act.

Currently, there are currently deliberations between Transnet and the Department of Public Enterprises on proposed amendments to some provisions of the Act, particularly the removal of the sections that require corporatisation of Transnet National Ports Authority as well as the sections that contemplate a separate Board of Directors for Transnet National Ports Authority.

National Key Points Act

Under the terms of the National Key Points Act, the Minister of Police may at any time declare any place or area a national key point if, in the opinion of that Minister, such place or area is so important that its loss, damage, disruption or immobilisation may prejudice the country or whenever he considers it necessary or expedient for the safety of the Republic of South Africa or in the public interest. On receipt of a notice of such declaration by the Minister of Police, the owner of a national key point concerned shall after consultation with that Minister, at his own expense take steps to the satisfaction of the Minister of Police in respect of the security of the said national key point. Transnet is required to comply with a notice from the Minister of Police in relation to certain operations of Transnet Pipelines, as they have been declared national key points. Transnet would in future, also be required to comply with any additional notices issued by the Minister of Police should any of its other operations be declared national key points.

RELATED-PARTY TRANSACTIONS

In the ordinary course of business the Group enters into transactions with companies controlled by its controlling shareholder, its directors and managers and associated parties. Services rendered to related parties comprise principally transportation services. Services purchased from related parties comprise principally energy, telecommunications, information technology and property related services. The Group believes that these transactions are entered into on an "arm's length" basis and their terms do not substantially differ from standard market terms. Furthermore, neither the Group nor any of its related parties is obligated to procure from or render services to their related parties.

Transactions with related parties

The following table sets forth the Group's transactions with public enterprises, Government entities and associates of Transnet for Financial Years 2013, 2012 and 2011. For additional information, see footnote 35 to the Consolidated Financial Statements included elsewhere in this Base Prospectus.

	As at or for the year ended 31 March		
	2013	**2012**	**2011**
		(R millions)	
Services rendered			
Major public enterprises	902	1,601	1,337
Other public enterprises	1,616	1,548	1,485
National Government business enterprises	1,348	1,608	1,087
Associates	21	42	36
	3,887	4,799	3,945
Services received			
Major public enterprises	1,987	2,876	1,314
Other public enterprises	417	380	295
National Government business enterprises	705	1,249	871
Associates	—	1	1
	3,109	4,506	2,481
Amount due (to)/from			
Major public enterprises	314	1,101	(3)
Other public enterprises	73	64	27
National Government business enterprises[(1)]	(1,962)	(2,315)	(5,197)
Associates	—	3	2
	(1,575)	(1,147)	(5,171)

During the year the Group completed the acquisition of the DDOP site from ACSA for R1,850 million, of which R1,200 million was paid in Financial Year 2012.

During the year the Group expensed R298 million (2012: R 525 million) in relation to provisions and write-offs of bad debts on related parties and at year-end the Group had a provision of R968 million (2012: R670 million) against debtors pertaining to related parties.

Employee Loans

In Financial Years 2013, 2012 and 2011 none of the members of the Board of Directors or the senior managers has or had loans from the Group. Further, none of the members of the Board of Directors or the senior managers had significant influence in any entity with which the Group had significant transactions during Financial Year 2013, 2012 and 2011. In addition, as at 31 March 2013 the Group had R nil million in outstanding employee housing and other loans compared with R nil million as at 31 March 2012. See, "*Transactions with key management personnel*" in footnote 35 of the Consolidated Financial Statements included in this Base Prospectus.

Other

Transnet also provides guarantees for certain debt of affiliates. As of 31 March 2013, Transnet had provided guarantees of liabilities of affiliates to third parties in the amount of R114 million. The significant decrease in guarantees relates to the closing out during Financial Year 2013 of the R1,833 million guarantee to Macquarie Bank (amongst others in a syndicate of lenders) pertaining to a sale and leaseback with respect to Transnet Freight Rail locomotives used in the Republic of South Africa.

EXCHANGE CONTROLS

The information below is not intended as legal advice and it does not purport to describe all the considerations that may be relevant to a prospective investor in the Notes. Prospective investors in the Notes who are non-South African residents or emigrants from the Common Monetary Area (as defined below) are urged to seek further professional advice with regard to the purchase of Notes.

Exchange controls restrict the export of capital from the Republic of South Africa, Namibia and the Kingdoms of Swaziland and Lesotho (collectively the "**Common Monetary Area**"). These exchange controls are administered by ExCon and regulate transactions involving South African residents. The purpose of exchange controls is to mitigate the decline of foreign capital reserves in the Republic of South Africa. The Issuer expects that South African exchange controls will continue to operate for the foreseeable future. The Government has, however, committed itself to relaxing exchange controls gradually and significant relaxation has occurred in recent years. It is the stated objective of the South African authorities to achieve equality of treatment between South African residents and non-South African residents in relation to inflows and outflows of capital. This gradual approach towards the abolition of exchange controls adopted by the Government is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time.

Transnet has obtained the written blanket approval from ExCon to borrow a maximum of R80 billion in the foreign financial markets without prior reference to ExCon. The approval in this regard is granted conditional upon, amongst others, the Issuer furnishing ExCon with copies of all loan agreements entered into with foreign lenders within 30 days of signing such agreements.

In addition, non-South African residents and/or their offshore subsidiaries may, without the prior written approval of ExCon, subscribe for or purchase any Note or beneficially hold or own any Note.

ExCon may (and is currently expected to) impose certain conditions on the issue of each series of Notes issued under the Programme, for example, with regard to maturity, issue size and listing.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, save for the text in italics and subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, will be incorporated by reference into each Global Note or Global Certificate, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All terms that are not defined in these terms and conditions will have the meanings given to them in Part A of the relevant Final Terms. References in these terms and conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are issued pursuant to an Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated on or around 24 October 2013 between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent and exchange agent, The Bank of New York Mellon (Luxembourg) S.A. as paying agent and transfer agent and The Bank of New York Mellon, New York Branch as registrar, paying agent and transfer agent and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated on or around 24 October 2013 executed by the Issuer in relation to the Notes. The fiscal agent, the exchange agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Exchange Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "Calculation Agent(s)", and which expressions include any successor fiscal agent, registrar, paying agent, transfer agent and calculation agent or additional agent appointed from time to time in connection with the Notes and, together, the "**Agent(s)**". References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Paying Agents, the Transfer Agents and any references to an "**Agent**" is to any one of them.

The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are bound by, and deemed to have notice of, all of the provisions of the Agency Agreement and the Deed of Covenant applicable to them.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or, as the case may be, the person in whose name a Registered Note is registered in the register, as defined below (or, in the case of a joint holding, the first named thereof). Capitalised terms used but not otherwise defined herein shall have the meanings given to them in the relevant Final Terms.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects (including as to listing) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Date, Interest Commencement Date and/or Issue Price.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents, the initial specified offices of which are set out in the Agency Agreement.

The final terms of the Notes are set out in Part A of the relevant final terms document (the "**Final Terms**") References to the "relevant Final Terms" are to Part A of the Final Terms (or the relevant provisions thereof) relating to the Notes.

1. Form, Denomination and Title

The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") as specified in the relevant Final Terms in each case in the Specified Denomination(s) stated in the relevant Final Terms provided that (a) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the Relevant Member State, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes), and (b) the minimum Specified Denomination of Rule 144A Notes shall be U.S.$200,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis specified in the relevant Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2 (Transfers of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder. Each Certificate will be numbered serially with an identifying number which will be recorded in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**").

Title to the Bearer Notes, the Coupons and the Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the Register maintained by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate), other than the endorsed form of transfer, in the case of Registered Notes, and no person shall be liable for so treating the holder.

2. Transfers of Registered Notes

(a) **Transfer of Registered Notes:** Subject to Conditions 2(e) (*Regulations Concerning Transfers and Registration*) and 2(f) (*Closed Periods*), Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a holder are being transferred) the principal amount of the balance of Registered Notes not transferred is a Specified Denomination. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(b) **Exercise of Options or Partial Redemption in respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a redemption of, some only of a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(a) (*Transfer of Registered Notes*) or (b) (*Exercise of Options or Partial Redemption in respect of Registered Notes*) shall be available for delivery within five business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in the Agency Agreement) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2, "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business (including dealings in foreign currencies) in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Exchange and Transfer Free of Charge:** The exchange and transfer of Registered Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Regulations Concerning Transfers and Registration:** All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) (*Redemption at the Option of the Issuer*), (iii) after any such Note has been called for redemption by the Issuer pursuant to Condition 6(d) (*Redemption at the Option of the Issuer*) or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b) (*Registered Notes*)).

3. Status

The Notes and the Coupons relating to them constitute direct, unconditional and (subject to Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons relating to them shall, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application and subject to Condition 4(a) (*Negative Pledge*), at all times rank at least pari passu with all other unsecured and unsubordinated indebtedness and other monetary obligations of the Issuer, present and future.

4. Covenants

(a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), the Issuer shall not, and shall ensure that none of its Material Subsidiaries shall, create, or permit to create, any Encumbrance, other than a Permitted Encumbrance, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (save for that which has been accorded preferential rights by law[1]), or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto securing the Notes and the Coupons equally and rateably with any such Relevant Indebtedness, guarantee or indemnity or providing such other security for the Notes and the Coupons as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders, unless the provision of any such security is waived by an Extraordinary Resolution of the Noteholders.

In these Conditions:

"**Encumbrance**" means any mortgage, pledge, hypothecation, assignment, deposit by way of security or any other agreement or arrangement (whether conditional or not and whether relating to existing or to future assets), having the effect of providing a security interest to a creditor or any agreement or arrangement to give any form of security to a creditor but excluding statutory preferences and any security interest arising by operation of law.

"**Group**" means the Issuer and its Subsidiaries.

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[1] As at the date of this Prospectus, no Relevant Indebtedness of the Issuer has been accorded preferential rights by law, by way of an Encumbrance.

"**Indebtedness**" means any indebtedness in respect of monies borrowed and (without double counting) guarantees (other than those given in the ordinary course of business) given, whether present or future, actual or contingent, excluding any intra-Group indebtedness.

"**Material Subsidiary**" means any Subsidiary of the Issuer which represents more than 15 per cent. of the total consolidated assets of the Issuer as reflected in the Issuer's most recent consolidated audited financial statements, or accounts for more than 15 per cent. of the Issuer's total consolidated attributable income before tax, as reflected in the Issuer's most recent consolidated audited financial statements.

"**Permitted Encumbrance**" means:

(a) any Encumbrance existing as at the date hereof[2]; or

(b) any Encumbrance with respect to the receivables of the relevant entity which is created pursuant to any securitisation or like arrangement in accordance with normal market practice and whereby the Indebtedness is limited to the value of such receivables; or

(c) any Encumbrance with respect to inter-company Indebtedness incurred between the Issuer and its Subsidiaries; or

(d) any Encumbrance created over any asset owned, acquired, developed or constructed by the relevant entity, being an Encumbrance created for the sole purpose of financing or refinancing that asset owned, acquired, developed or constructed, provided that the Indebtedness so secured shall not exceed the bona fide market value of such asset or the cost of that acquisition, development or construction (including all interest and other finance charges, adjustments due to changes in circumstances and other charges reasonably incidental to such cost, whether contingent or otherwise) and where such market value of costs both apply, the higher of the two; or

(e) any Encumbrance over deposit accounts securing the loan to the relevant entity of funds equal to the amounts standing to the credit of such deposit accounts; or

(f) any Encumbrance created in the ordinary course of the relevant entity's business over stock-in-trade, inventory, accounts receivable or deposit accounts including any cash management system; or

(g) any Encumbrance subsisting over any asset of any Subsidiary of the Issuer prior to the date of such entity becoming a Subsidiary of the Issuer and not created in contemplation of such entity becoming a Subsidiary of the Issuer and any substitute Encumbrance created over that asset (but in any such case the amount of the Indebtedness secured by such Encumbrance, may not be increased).

"**Relevant Indebtedness**" means any Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the counter or other securities market.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

(b) **Change of Principal Business:** So long as any of the Notes remains outstanding, the Issuer will not cease to carry on any of the principal businesses carried on by it at the date hereof (being the business divisions of the Issuer comprising Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals and Transnet Pipelines), nor will it enter into any agreement to do so (a "**Business Change**"), save for any Business Change arising as a result of Government Intervention and in the case of such Government Intervention, only where such Business Change (i) will not lead to a Negative Rating Event, (ii) or as is otherwise approved by an Extraordinary Resolution of the Noteholders.

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[2] As at the date of this Prospectus, there are no outstanding Permitted Encumbrances of the nature described in this clause (a).

In these Conditions:

"**Government Intervention**" means any administrative, executive or legislative act, whether of a commercial, legal or political nature, of the Government of the Republic of South Africa or any administrative authority, department, political subdivision or taxing authority thereof or therein.

"**Investment Grade Rating**" means BBB- or better by S&P or Baa3 or better by Moody's.

"**Negative Rating Event**" means (i) 90 days after the date of the Business Change or, as the case may be, the Change of Control Event, the Issuer does not have an Investment Grade Rating on a global rating scale from both Rating Agencies, or (ii) within 90 days of the date of the Business Change or, as the case may be, the Change of Control Event, either or both Rating Agencies have placed the Issuer under consideration for rating review, and actually downgrades the rating of the Issuer to below an Investment Grade Rating on a global rating scale within the later of (a) 90 days after the date of the Business Change or, as the case may be, the Change of Control Event and, (b) 60 days from the public announcement of such rating review.

"**Rating Agency**" means each of Standard & Poor's Rating Services and its successors ("**S&P**") and Moody's Investors Service and its successors ("**Moody's**") and their successors or any other rating agency of equivalent international standing specified from time to time by the Issuer.

5. Interest and Other Calculations

(a) **Interest on Fixed Rate Notes:** Each Note paying a fixed rate of interest (a "**Fixed Rate Note**") bears interest on its outstanding principal amount from the Interest Commencement Date at the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates*: Each Note paying a floating rate of interest (a "**Floating Rate Note**") bears interest on its outstanding principal amount from the Interest Commencement Date at the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f) (*Calculations*).

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as the sum of the Margin and the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as a Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified hereon;

(b) the Designated Maturity is a period specified hereon; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(a) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LlBOR or Brussels time in the case of EURlBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(b) If the Relevant Screen Page is not available or if sub-paragraph (x)(l) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR or Brussels time, if the Reference Rate is EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(c) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR or Brussels time, if the Reference Rate is EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, if the Reference Rate is LIBOR or Brussels time, if the Reference Rate is EURIBOR), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of

Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(c) **Zero Coupon Notes:** If the Redemption Amount of a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, or improperly withheld or refused, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 6(b)(i) (*Zero Coupon Notes*)).

(d) **Accrual of Interest:** Interest shall cease to accrue on each Note from the due date for redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which event it shall continue to bear interest in accordance with Condition 5 (*Interest and Other Calculations*) (after as well as before judgement) at the Rate of Interest in the manner provided in this Condition 5 (*Interest and Other Calculations*) to the Relevant Date (as defined in Condition 8 (*Taxation*)).

(e) **Margin, Maximum/Minimum Rates of Interest Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.

(f) **Calculations**: The amount of interest payable in respect of each Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such note divided by the Calculation Amount. For this purposes, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent. provided that where an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any other determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other competent authority so require, such exchange or other competent authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) **Definitions: In these Conditions:**

"**Alternative Currency**" means such currency or currencies specified as such in the relevant Final Terms.

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

(iv) "**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period of Interest Accrual Period, the "**Calculation Period**");

(v) if "**Actual/365**" or "Actual/Actual-ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(vi) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(vii) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(viii) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

(ix) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] - (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_2 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(x) if "**Actual/Actual-ICMA**" is specified hereon,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Calculation Amount**" means the amount, if any, specified hereon.

"**Determination Date**" means the date specified as such hereon or, if none is so specified, the Interest Payment Date.

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Euro-zone**" means the region comprising member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Fixed Coupon Amount**" means the amount, if any, specified hereon.

"**Fixed Interest Payment Date**" means the date, if any, specified hereon.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the First Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the relevant Series (as specified hereon)) as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency provided, however, that:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent.

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of this Note and that is either specified hereon or calculated or determined in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, and, in the case of any other determination, four major banks in the market most closely connected with the Reference Rate, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified in the relevant Final Terms.

"**Relevant Financial Centre**" has the meaning specified in the relevant Final Terms.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page hereon, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

"**Relevant Time**" has the meaning specified hereon.

"**Specified Currency**" in relation to any series of Notes means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

(j) **Calculation Agent**: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) **Final Redemption:** Unless previously redeemed, or purchased and cancelled, each Note will be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount.

(b) **Early Redemption:**

(i) Zero Coupon Notes:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d) (*Accrual of Interest*).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or at any time (if this Note is a Fixed Rate Note or a Zero Coupon Note), on giving not less than 15 nor more than 30 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b)(ii) (*Other Notes*)) (together with interest accrued to the date fixed for redemption), if:

(i) the Issuer has or will become obliged to pay additional amounts as described under Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of South Africa or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that:

(A) where the Notes may be redeemed at any time, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due, or

(B) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two duly authorised officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, part of the Notes on any Optional Redemption Date (Call). Any such redemption of Notes shall be at their Optional Redemption Amount (Call) together with interest accrued (if any) to such date.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or, in the case of Registered Notes, shall specify the principal amount of Registered Notes drawn and the holder(s) of such Registered Notes to be redeemed, which shall have been drawn in such place and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders:**

(i) *Put Option*: If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon), redeem such Note on the Optional Redemption Date(s) (Put) specified in the relevant Put Option Notice at its Optional Redemption Amount together (if applicable) with interest accrued (if any) to the date fixed for redemption.

(ii) *Change of Control*: If a Change of Control Event occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving notice to the Issuer at any time during the Redemption Period, redeem such Note on the Redemption Date at its principal amount (or such other amount as may be specified hereon) together (if applicable) with interest accrued to the date fixed for redemption.

Immediately upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 14 (Notices) specifying the nature of the Change of Control Event.

For the purpose of this paragraph (ii):

a "**Change of Control Event**" will occur if at any time the Government of the Republic of South Africa ceases to own, directly or indirectly, more than 50 per cent. of the issued share capital of the Issuer or ceases to control, directly or indirectly, the Issuer, save for any such change of control as does not lead to a Negative Rating Event or as is otherwise approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders. For the purpose of this Condition, the Government of the Republic of South Africa will be deemed to "control" the Issuer if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it has the power to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of the Issuer or otherwise controls, or has the power to control, the affairs and policies of the Issuer.

"**Redemption Date**" means, in respect of any Redemption Period, the date which falls 14 days after the date on which the relevant holder exercises its option in accordance with Condition 6(e)(iii) (*Exercise Notice*).

"**Redemption Period**" means, in relation to any Change of Control Event, the period from and including the date on which a Change of Control Event occurs (whether or not the Issuer has given the notice referred to in the second paragraph of this Condition 6(e)(ii) in respect of such event) to and including the date falling 60 days after the date on which any such notice is given, provided that if no such notice is given, the Redemption Period shall not terminate.

(iii) Exercise Notice: In order to exercise the option contained in Condition 6(e)(i) (*Put Option*) or (ii) (*Change of Control*), the holder must, not less than 15 nor more than 30 days before the relevant Option Redemption Date (Put) deposit (in the case of a Bearer Note) such Note (together with all Coupons and unexchanged Talons) with any Paying Agent or (in the case of a Registered Note) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option Exercise Notice in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the relevant period. No Note, Coupon or Certificate so deposited and option so exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Purchases:** The Issuer and any Subsidiary may at any time purchase Notes (provided that all Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Notes so purchased, while held by or on behalf of the Issuer or any Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating the quorum at any meeting of Noteholders or for the purposes of Conditions 10 (*Events of Default*) and 11(a) (*Meetings of Noteholders*).

(g) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any Subsidiary may be surrendered for cancellation, in the case of a Bearer Note by surrendering such Note together with all Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of a Registered Note, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a bank. For the purpose of this Condition 7, "**bank**" means a bank in the Principal Financial Centre for such currency.

(b) **Registered Notes:**

(i) *Principal*: Payments of principal in respect of Registered Notes shall be made against presentation and surrender or, in the case of part payment of any sum due, endorsement, of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) *Interest*: Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Currency Election**

If agreed between the Issuer and the Exchange Agent and so specified in the relevant Final Terms, any Noteholder may make an irrevocable election (a "**Currency Election**") by notice to the Exchange Agent, in the form specified in the Agency Agreement, to receive such payment in any Alternative Currency, such notice to be received by the Exchange Agent no later than the close of business in the location of its specified office on the 10th Business Day and no earlier than the 15th Business Day prior to the date on which the relevant payment of principal or interest under the Notes becomes due and payable.

A separate Currency Election must be made and notice delivered in respect of each payment for which a Noteholder requests payment in an Alternative Currency. Upon the making of any such Currency Election, the Exchange Agent shall, subject to Condition 7(f) (*Failure to Convert Currency*), convert such payment into such Alternative Currency and the Fiscal Agent shall make payment thereof on the relevant payment date in accordance with these Conditions and the provisions of Clause 4.7 of the Agency Agreement.

The Fiscal Agency Agreement provides that a Currency Election may only be made whilst the relevant Notes are represented by a Global Notes and held by a Common Depositary on behalf of Euroclear and/or Clearstream. Luxembourg. Accordingly Notes in respect of which a Currency Election applies will not be eligible for clearing through DTC and will clear only through Euroclear and Clearstream, Luxembourg.

(e) **Currency Conversion by the Exchange Agent**

(i) If a Currency Election has been made pursuant to Condition 7(d) (*Currency Election*), the Exchange Agent shall, on receipt of the funds from the Issuer, purchase the relevant Alternative Currency or Alternative Currencies with the related Specified Currency at a purchase price calculated on the basis of the rate (the "**Applicable Exchange Rate**") which the Exchange Agent uses for conversion of the Specified Currency into the relevant Alternative Currency for delivery on the date for payment in respect of the Notes and deduct any spread, charges, fees or commissions payable to it and thereafter pay the resulting net amount (the "**Conversion Amount**") for delivery on such date. In no event shall the Issuer or the Exchange Agent be liable to any party for the Applicable Exchange Rate so obtained or such amounts so deducted, but the Issuer shall be liable to each of the relevant Noteholders for payment to them of their *pro rata* share of the applicable Conversion Amount.

(ii) The Exchange Agent shall give notice in accordance with Condition 14 (*Notices*) to the Fiscal Agent, the Paying Agents, Transfer Agents, Registrar (as the case may be) and the Noteholders through Euroclear/Clearstream, Luxembourg of the Conversion Amount and the Applicable Exchange Rate at which the Alternative Currency or Alternative Currencies were purchased.

(iii) The Issuer and the Exchange Agent shall have no obligation whatsoever to compensate or indemnify any Noteholder against any difference between their *pro rata* share of the Conversion Amount received and their *pro rata* share of the amount due and payable had the relevant payment been made in the Specified Currency.

(iv) The Exchange Agent may rely conclusively on its internal foreign exchange conversion rate (including for the avoidance of doubt, any third party indices forming the basis for such conversion rate) as the basis for determining the Applicable Exchange Rate and neither the Exchange Agent, nor any other Agent shall be liable to any Noteholder, the Issuer or any third party for any losses resulting from or associated with the use by the Exchange Agent of the Applicable Exchange Rate or associated with the determination of the Applicable Exchange Rate.

(f) **Failure to Convert Currency**

(i) If, for any reason, it is not possible for the Exchange Agent to purchase the relevant Alternative Currency or Alternative Currencies with the relevant Specified Currency, the Exchange Agent shall give notice to the Fiscal Agent, Paying Agents, Transfer Agents and/or Registrar (as the case may be) and the Noteholders through Euroclear/Clearstream, Luxembourg and the payment shall instead be made in the Specified Currency.

(ii) The Issuer and the Exchange Agent shall have no obligation whatsoever to compensate or indemnify any Noteholder in the event that it is not possible for the Exchange Agent to purchase the relevant Alternative Currency or Alternative Currencies, and accordingly, the inability of the Exchange Agent to purchase the Alternative Currency or Alternative Currencies will not constitute an Event of Default or otherwise breach these Conditions.

Under the terms of the Agency Agreement, the Fiscal Agent will need to have received cleared funds from the Issuer by no later than 10.00 a.m. (in the relevant jurisdiction) on the Business Day prior to the relevant date for payment in respect of Notes for which no Alternative Currency is specified in the relevant Final Terms and the Exchange Agent will need to have received cleared funds from the Issuer by no later than 10.00 a.m. (in the relevant jurisdiction) on the third Business Day prior to the relevant date for payment in respect of Notes for which an Alternative Currency is specified in the relevant Final Terms in order to make any payments to Noteholders on such date. If the Fiscal Agent or the Exchange Agent receives cleared funds from the Issuer after such time, the Fiscal Agent or the Exchange Agent (as the case may be) will use reasonable efforts to pay or convert funds as soon as practicable thereafter.

(g) **Payments subject to laws:** All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 thereof, any regulations or agreements otherwise thereunder, official interpretations thereof ("**FATCA**"), or any law implementing an intergovernmental approach to FATCA, but without prejudice to the provisions of Condition 8 (*Taxation*).

(h) **Appointment of Agents:** The Agents initially appointed by the Issuer and their respective specified offices are listed below. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of any of the Agents and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having its specified offices in London so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange's Regulated Market, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. Dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(i) **Unmatured Coupons and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, they should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9 (*Prescription*)).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Note. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(j) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9 (*Prescription*)).

(k) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the

Republic of South Africa or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Republic of South Africa other than the mere holding of the Note or Coupon; or

(b) presented or (if applicable) surrendered (or (if applicable) in respect of which the relevant Certificate is presented or (if applicable) surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting or, as the case may be, surrendering it for payment on such thirtieth day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented or (if applicable) surrendered (or (if applicable) in respect of which the relevant Certificate is presented or (if applicable) surrendered) for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting or, as the case may be, surrendering the relevant Note or Coupon (or (if applicable) the relevant Certificate) to another Paying Agent in a Member State of the European Union.

Notwithstanding any other provision of this Condition 8, none of the Issuer, the Fiscal Agent, and Paying Agent or any other person shall be required to pay any additional amounts in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code, otherwise required pursuant to FATCA or required pursuant to any law implementing an intergovernmental approach to FATCA.

If the Issuer becomes subject generally at any time to any taxing jurisdiction, authority or agency other than or in addition to the Republic of South Africa, references in this Condition 8 and in Condition 6(c) (*Redemption for Taxation Reasons*) to the Republic of South Africa shall be read and construed as references to the Republic of South Africa and/or to such other jurisdiction, authority or agency.

As used in these Conditions, "**Relevant Date**" in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation or, as the case may be, surrender of the Note or Coupon (or (if applicable) the relevant Certificate) being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) "**interest**" shall (except as provided in Condition 7(a) (*Bearer Notes*) be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and Other Calculations*) or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

9. Prescription

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. Events of Default

If any of the following events ("**Events of Default**") occurs, the holder of any Note may by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, declare that such Note is immediately due and repayable, whereupon the Early Redemption

Amount of such Note together with accrued interest to the date of redemption shall become immediately due and payable, unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent:

(a) **Non-Payment:** default is made in the payment on the due date of principal in respect of any of the Notes, or default is made for more than five Business Days in the payment on the due date of interest in respect of any of the Notes; or

(b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 30 calendar days after written notice of such default addressed to the Issuer shall have been delivered to the Issuer or the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer or any Material Subsidiary for or in respect of Material Indebtedness becomes due and payable (or becomes capable of becoming due and payable) prior to its stated maturity by reason of any event of default or the like (howsoever described), (ii) any such Material Indebtedness is not paid when due or, as the case may be, within any applicable grace period or (iii) the Issuer or any Material Subsidiary fails to pay when due or, as the case may be, within any applicable grace period any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, save in each case where the liability in respect of the relevant indebtedness, guarantee or indemnity is being contested by the Issuer or such Material Subsidiary, as the case may be, in good faith and by all appropriate means; or

(d) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a material part of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged, withdrawn or stayed within 30 calendar days; or

(e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary in respect of all or a material part of the property, assets or revenues of the Issuer or such Material Subsidiary, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or

(f) **Insolvency:** the Issuer or any Material Subsidiary (i) is (or is deemed by a court to be) insolvent or bankrupt or unable to, or admits its inability to, pay its debts (or any class of its debts) as they fall due, (ii) stops, suspends or threatens to stop or suspend payment of its debts, (iii) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or (iv) a moratorium is agreed or declared in respect of or affecting all or any part of the debts of the Issuer, or any Material Subsidiary; or

(g) **Winding-up:** (i) the Issuer or any Material Subsidiary is placed in liquidation, dissolved or wound up, whether provisionally or finally or is placed under judicial management, whether provisionally or finally, or any process similar thereto, (ii) an order is made or an effective resolution is passed for the winding-up, dissolution or liquidation of the Issuer or any Material Subsidiary or (iii) save as permitted by Condition 4(b) the Issuer ceases or threatens to cease, or is required to cease, to carry on the whole or a substantial part of its business or operations or disposes of the whole or a substantial part of its business or operations or any Material Subsidiary ceases or threatens to cease, or is required to cease, to carry on the whole or substantially all of its business or operations or disposes of the whole or substantially all of its business or operations, in each case except (A) on terms approved by an Extraordinary Resolution of the Noteholders or (B) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in another Subsidiary of the Issuer or the Issuer; or

(h) **Judicial Proceedings:** the Issuer or any Material Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable compromise with creditors, liquidation, winding-up or insolvency or other similar laws or compromises or attempts to compromise with its creditors generally (or any significant class of creditors) or any meeting of creditors is convened by the Issuer or any Material Subsidiary to consider a proposal for an arrangement of compromise with its creditors generally (or any significant class of creditors); or

(i) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable or (iii) to make the Notes admissible in evidence in the courts of the Republic of South Africa is not taken, fulfilled or done; or

(j) **Unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

(k) **Analogous Events:** any event occurs which under the laws of the Republic of South Africa has an analogous effect to any of the events referred to in paragraphs (d) to (h) above.

For the purpose of this Condition,

"**Material Indebtedness**" means any Indebtedness amounting in aggregate to an amount which equals or exceeds 0.5 per cent. of the total assets of the Issuer as set out in the Issuer's most recent published financial statements from time to time (or its equivalent in other currencies) at the time of the relevant Event of Default.

11. Meetings of Noteholders and Modification

(a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions or the Deed of Covenant. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in aggregate principal amount of the Notes for the time being outstanding or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to amend any dates for the payment of the principal of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (viii) to approve a Business Change pursuant to Condition 4(b) (*Change of Principal Business*), or (ix) to change the governing law of the Notes, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification:** The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. The parties to the Agency Agreement shall not agree, without the sanction of an Extraordinary Resolution, to any modification of the Agency Agreement (including any waiver or authorisation of any breach of proposed breach of or any failure to comply with, the Agency Agreement) which is not of a formal, minor or technical nature, or is not made to correct a manifest error, or which, in the opinion of such parties, could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12. Replacement of Notes, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificate, Coupons or further Coupons) and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Certificate, Coupons or Talons must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (so that, for the avoidance of doubt, references in the conditions of such notes to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

Notwithstanding the foregoing, further Notes that are not issued pursuant to a "qualified reopening" for U.S. federal income tax purposes shall be issued with an ISIN or CUSIP different from those for the original Notes and shall not form a single series with the original Notes.

14. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner that complies with any other relevant rules of any stock exchange or other relevant authority on which the Notes are for the time being or by which they have for the time being admitted to trading.

Any such notice shall be deemed to have been given on the date of such publication or, if required to be published more than once or on different dates, on the first date on which publication is made in all required newspapers.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

15. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. Governing Law and Jurisdiction

(a) **Governing Law:** The Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with the Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The Courts of England have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons (including any dispute relating to their existence, validity or termination or any non-contractual obligations arising out of or in connection with them) and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Notes, Coupons and Talons only, and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Service of Process:** The Issuer appoints TMF Corporate Services Limited of Pellipar House, 1st Floor, 9 Cloak Lane, London EC4R 2RU, United Kingdom as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14 (*Notices*). Nothing shall affect the right of any Noteholder to serve process in any manner permitted by law.

(d) **Waiver:** The Issuer irrevocably agrees that, should any Proceedings be taken anywhere (whether for any injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) in relation to those Proceedings (including without limitation, immunity from the jurisdiction of any court or tribunal, suit, service of process, injunctive or other interim relief, any order for specific performance, any order for recovery of land, any attachment (whether in aid of execution, before judgment or otherwise) of its assets, any process for execution of any award or judgment or other legal process) shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Issuer irrevocably agrees that it and its assets are, and shall be, subject to such Proceedings, attachment or execution in respect of its obligations under the Notes.

(e) **Consent:** The Issuer irrevocably and generally consents in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

In the case of Bearer Notes, upon the initial deposit of a Global Note with a Common Depositary and, in the case of Registered Notes, upon the registration of the relevant Global Certificate in the name of a nominee for a Common Depositary and delivery of the relevant Global Certificate to such Common Depositary, Euroclear and/or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for DTC and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. Notes that are initially deposited with a Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear and/or Clearstream, Luxembourg or other clearing systems.

Notes in respect of which a Currency Election applies will not be eligible for clearing through DTC and will clear only through Euroclear and Clearstream, Luxembourg.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg, DTC or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each Temporary Global Note will be exchangeable free of charge to the holder, on or after its exchange date (the "**Exchange Date**"):

(i) if the relevant Final Terms indicate that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (see "*Subscription and Sale—Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole but not in part and on a day after the expiry of 40 days after its issue upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part (except as provided under "*—Partial Exchange of Permanent Global Notes*"), for Definitive Notes if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates held through Euroclear or Clearstream

If the applicable Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(a) *(Transfer of Registered Notes*) may only be made:

(i) in whole, but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) in whole, or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to (i) above, the Registered Noteholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Noteholder's intention to effect such transfer.

Global Certificates Held Through DTC

If the Final Terms state that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of those Notes held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of DTC, but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by that Rule 144A Global Certificate pursuant to Condition 2(a) *(Transfer of Registered Notes*) may only be made:

(i) in whole, but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Rule 144A Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or

(ii) in whole, or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to (i) above, the relevant Registered Noteholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Noteholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Rule 144A Global Certificate shall bear the legend applicable to such Notes as set out in "*Transfer Restrictions*".

Delivery of Notes

On or after any due date for exchange the holder of a Global Note may, in the case of an exchange in whole, surrender such Global Note or, in the case of a partial exchange, present it for endorsement to, or to the order of, the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or (in the case of a Permanent Global Note) Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Base Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

Exchange Date means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, after that on which the notice requiring exchange is given or, where applicable, after the 15th day on which a clearing system is closed for business, and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(f)(vi) and Condition 8(d) will apply to the Definitive Notes only.

Record Date

Each payment in respect of a Global Certificate will be made to the person shown as the Noteholder in the Register at the close of business on the Clearing System Business Day before the due date for such payment (the "**Record Date**"), where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by a reduction in the nominal amount of the relevant Permanent Global Note or its presentation to or to the order of the Fiscal Agent for endorsement in the relevant schedule of such Permanent Global Note or, in the case of a Global Certificate, by a reduction in the aggregate principal amount of the Certificates in the register of the Certificateholders, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a Permanent Global Note or a Global Certificate may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option provided to the Issuer in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that the Issuer's option is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (as the case may be).

Noteholders' Option

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or a Global Certificate may be exercised by the holder of the Permanent Global Note or Global Certificate, as the case may be, by giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent or Transfer Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent or Transfer Agent, as the case may be, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation or, in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificate in the register of the Certificateholders.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate.

CLEARING AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons may be deposited with a Common Depositary for Euroclear and/or Clearstream, Luxembourg or an Alternative Clearing System as agreed between the Issuer and the Dealer. Transfers of interests in such Temporary Global Notes or Permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

Registered Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate (which may, for the avoidance of doubt, be a Regulation S Global Certificate or a Rule 144A Global Certificate). Each Global Certificate deposited with a Common Depositary for, and registered in the name of, a nominee for Euroclear and/or Clearstream, Luxembourg will have an ISIN and a Common Code.

The Issuer or an agent appointed for such purpose that is an eligible DTC participant may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a Rule 144A Global Certificate. Each such Rule 144A Global Certificate will have a CUSIP number. Each Rule 144A Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Transfer Restrictions*". In certain circumstances, as described below in "*Transfer of Registered Notes*," transfers of interests in a Rule 144A Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Notes to be cleared through the facilities of DTC, the Custodian, with whom the Rule 144A Global Certificates are deposited, and DTC, will electronically record the nominal amount of the Rule 144A Notes held within the DTC system. Investors may hold their beneficial interests in a Rule 144A Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each Rule 144A Global Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Rule 144A Global Certificate. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Rule 144A Global Certificate as shown on the records of DTC or the nominee. The Issuer also expects that payment by DTC participants to owners of beneficial interests in such Rule 144A Global Certificate held through such DTC participant will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Issuer, the Fiscal Agent or any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating, to or payments made on account of, ownership interests in any Rule 144A Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of a Regulation S Global Certificate and/or a Rule 144A Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by a Regulation S Global Certificate, in amounts specified in the relevant Final Terms, and, in the case of Notes initially represented by a Rule 144A Global Certificate, in minimum amounts of U.S.$200,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s), or higher integral multiples of U.S.$1,000, in certain limited circumstances described below.

Payments through DTC

Payments in U.S. Dollars of principal and interest in respect of a Rule 144A Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Note. Payments of principal and interest in a currency other than U.S. Dollars in respect of Notes evidenced by a Rule 144A Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Issuer by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participant entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the Record Date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into U.S. Dollars and deliver such U.S. Dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment that did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

Transfer of Registered Notes

Transfers of interests in Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Rule 144A Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in a Regulation S Global Certificate may only be held through Euroclear or Clearstream, Luxembourg. Beneficial interests in Rule 144A Global Certificates may be held through Euroclear, Clearstream, Luxembourg or DTC. In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in a Regulation S Global Certificate to a transferee who wishes to take delivery of such interest through a Rule 144A Global Certificate for the same Series of Notes provided that any such transfer made on or prior to the expiration of the distribution compliance period (as used in "*Subscription and Sale*") relating to the Notes represented by such Regulation S Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Regulation S Global Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Certificate to the Fiscal Agent of details of that account at DTC, Euroclear or Clearstream, Luxembourg, or as the case may be, to be credited with the relevant interest in the Rule 144A Global Certificate. Transfers at any time by a holder of any interest in the Rule 144A Global Certificate to a transferee who takes delivery of such interest through an Regulation S Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC, Euroclear or Clearstream, Luxembourg, or as the case may be, to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "*Transfer Restrictions*," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Fiscal Agent.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date. The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Fiscal Agent, the Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see "*Transfer Restrictions*".

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Rule 144A Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Rule 144A Global Rule 144A are credited and only in respect of such portion of the aggregate nominal amount of the relevant Rule 144A Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Rule 144A Global Certificates for exchange for Individual Certificates (which will, in the case of Rule 144A Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Rule 144A Global Certificate is lodged with DTC or the Custodian, Restricted Notes represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Certificates

Registration of title to Registered Notes in a name other than a depositary or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (i) in the case of Rule 144A Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to the Notes while in Global Form—Exchange—Global Certificates held through DTC*" or (ii) in the case of Regulation S Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to the Notes while in Global Form—Exchange—Global Certificates held through Euroclear or Clearstream*". In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

(i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Individual Certificates; and

(ii) in the case of a Rule 144A Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefore on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is three business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and, in the event that an Issue Date is more than three business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is three business days prior to the relevant Issue Date should consult their own adviser.

TAXATION

The following summary of certain South African, United States, and European Union consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not constitute a legal opinion or tax advice. In addition this summary does not purport to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.

The Republic of South Africa

Securities Transfer Tax

The issue, transfer and redemption of the Notes will not attract securities transfer tax under the Securities Transfer Tax Act, 2007. Any future transfer duties and/or taxes that may be introduced in respect of (or be applicable to) the transfer of Notes will be for the account of Noteholders.

Income Tax

Position as at the date of this Base Prospectus

A resident (as defined in section 1 of the Income Tax Act, 1962 as amended (the "**Income Tax Act**")) ("**Resident**") will, subject to any available exemptions, be taxed on its worldwide income. Accordingly, a Noteholder who is a Resident will be liable to pay income tax, subject to available exemptions, on any income received, accrued or deemed to have accrued in respect of the Notes held by that Noteholder in any relevant year of assessment of that Noteholder.

A non-resident ("**non-Resident**") is taxed in the Republic of South Africa under the Income Tax Act only on income from a source within or deemed to be within the Republic of South Africa. A non-Resident is a person who or which is not a Resident. Interest which is received or accrued in respect of the Notes during any year of assessment to any non-Resident under the Income Tax Act will be exempt from income tax under section 10(1)(h) of the Income Tax Act, unless that person:

a) is a natural person who was physically present in the Republic of South Africa for a period exceeding 183 days in aggregate during the relevant year of assessment; or

b) at any time during the relevant year of assessment, carried on business through a permanent establishment in the Republic of South Africa.

Nature of any original issue discount or premium

Any original issue at a discount to the nominal amount of the Notes will, under section 24J of the Income Tax Act, be treated as interest for tax purposes, and the discount amount will be deemed to accrue to the Noteholder on a yield to maturity as if such Noteholder were to hold the Notes until maturity. Any original issue premium over the nominal amount of the Notes will also be treated as interest for tax purposes, and will be deemed to have been incurred by the Noteholder on a yield to maturity basis as if such Noteholder were to hold the Notes until maturity.

Capital Gains Tax

Capital gains tax applies to any capital gain earned on the disposal or deemed disposal of an asset by a Resident. Capital gains tax will not be levied in relation to the disposal of any Notes by a non-Resident unless such Notes comprise assets which are attributable to a permanent establishment of that non-Resident in the Republic of South Africa during the relevant year of assessment.

Withholding Tax

As at the date of this Base Prospectus, under current taxation law in the Republic of South Africa, all payments made of principal and interest in respect of the Notes will be made free of withholding or deduction for or on account of any taxes, levies, imposts, duties, charges, fees, deductions or withholdings or other charges, of whatever nature imposed, levied, collected, withheld or assessed by the South African government or any political subdivision or taxing authority thereof or therein (including any penalty payable in connection with any failure to pay, or delay in paying, any of the same).

In terms of the Income Tax Act, a withholding tax on interest paid to non-Residents (at a rate of 15 per cent. of the amount of the interest) ("**Withholding Tax**") came into effect on 1 July 2013. The Withholding Tax provisions of the Income Tax Act are therefore in force, binding on (among others) the relevant borrowers/ issuers and enforceable by the South African Revenue Service ("**SARS**").

However a "postponement" of the "coming into force" of the Withholding Tax provisions was announced by the South African Minister of Finance in the fiscal budget speech for the year ending 31 March 2013, and in terms of the draft Taxation Laws Amendment Bill, 2013 ("**Bill**") (which has not yet been promulgated as law), among other things, the Withholding Tax is proposed to be leviable on and with effect from 1 January 2015. The Bill therefore provides, among other things, for a proposed amendment of the 1 July 2013 commencement date to 1 January 2015 ("**Proposed New Commencement Date**").

It is understood that, as a result of the Bill and the Proposed New Commencement Date, SARS (in conjunction with the South African National Treasury) have taken the decision not to enforce (or require the relevant borrowers/issuers to comply with) the Withholding Tax provisions of the Income Tax Act until the Proposed New Commencement Date ("**SARS Interim Non-Enforcement**").

Subject to any Withholding Tax relief provided for in the Income Tax Act (see the paragraph below) or an applicable treaty, the Withholding Tax is (subject to SARS Interim Non-Enforcement) imposed in respect of any interest that is regarded as being from a source within South Africa that is received by or that accrues to a non-Resident (other than payments of interest to a non-Resident who is not entitled to the section 10(1)(h) exemption referred to above and which non-Resident is therefore liable for the payment of income tax on such interest).

In terms of the Income Tax Act, interest received by or accrued to a foreign person (as defined in the Income Tax Act), during any year of assessment in respect of any listed debt is exempt from the Withholding Tax on interest. Under the Income Tax Act, a "listed debt " is a debt that is listed on a recognised exchange as defined in the Income Tax Act. The Notes will constitute a listed debt as contemplated in the Withholding Tax provision of the Income Tax Act. As at the date of this Base Prospectus, the London Stock Exchange is a recognised exchange as defined in the Income Tax Act. Accordingly, to the extent that the Notes issued pursuant to this Base Prospectus are listed on the London Stock Exchange, no Withholding Tax will be imposed on any interest received by or accruing to a foreign person.

Accordingly, payments of interest under the Notes held by non-Resident Noteholders will be exempt from the Withholding Tax.

Definition of interest

The references to "interest" above mean "interest" as understood in South African tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation

United States

The following discussion is a summary based upon present law of certain material U.S. federal income tax considerations for prospective purchasers of Registered Notes. This discussion addresses only U.S. holders (as defined below) purchasing Registered Notes in an original offering at the issue price (as defined below) and that hold such Registered Notes as capital assets and use the U.S. dollar as their functional currency. This discussion is a general summary. It is not a substitute for tax advice. This discussion does not address the tax treatment of prospective purchasers subject to special rules, such as financial institutions, insurance companies, tax-exempt entities, dealers in securities or foreign currencies, traders in securities that elect to mark to market, prospective purchasers liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, or persons holding the Registered Notes as part of a hedge, straddle, conversion, or other integrated financial transaction. This section does not address Notes that are due to mature more than 30 years from the date on which they are issued. The U.S. federal income tax consequences of owning Registered Notes that are due to mature more than 30 years from their date of issue will be discussed in the applicable Final Terms. This summary does not address U.S. federal estate and gift, U.S. state and local or foreign tax law.

This summary does not discuss Bearer Notes. In general, U.S. federal income tax law imposes significant limitations on U.S. holders of Bearer Notes.

THE STATEMENTS ABOUT U.S. FEDERAL INCOME TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID U.S. FEDERAL TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF THE REPUBLIC OF SOUTH AFRICA, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of a note that is (i) a citizen or individual resident of the United States for U.S. federal income tax purposes, (ii) a corporation, partnership or other business entity organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) a trust subject to the control of a U.S. person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. federal income tax treatment of a partner in a partnership that holds Registered Notes will depend on the status of the partner and the activities of the partnership. Partnerships are urged to consult their own tax advisors regarding the specific tax consequences to their partners of purchasing, owning and disposing of such Registered Notes.

There may be further discussion of the U.S. federal income tax treatment of Registered Notes in the Final Terms for each Series of Registered Notes.

Payments of Stated Interest

Interest paid on a Registered Note will be taxable to a U.S. holder as ordinary interest income at the time it accrues or is received in accordance with the holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). Interest income earned by a U.S. holder with respect to a Registered Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisers about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to OID Registered Notes (as defined below), and foreign currency Registered Notes ("**foreign currency Registered Notes**") are described under "*—Original Issue Discount*", "*—Contingent Payment Debt Instruments*" and "*—Foreign Currency Registered Notes*", respectively.

Original Issue Discount

A Registered Note that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued with original issue discount ("**OID**") for U.S. federal income tax purposes (and will be referred to as an "**OID Registered Note**") unless the amount of the discount is below a *de minimis* threshold (as described below) or the Registered Note is a short-term Registered Note (a "**short-term Registered Note**") (as defined below). The "issue price" of a Registered Note generally will be the first price at which a substantial amount of the Registered Notes are sold to the public. The "stated redemption price at maturity" of a Registered Note generally will equal the sum of all payments required to be made under the Registered Note other than payments of "qualified stated interest" ("**QSI**"). QSI is stated interest unconditionally payable in cash or in property (other than in debt instruments of the issuer) at least annually during the entire term of the Registered Note at a single fixed rate of interest. In addition, subject to certain limitations, QSI includes, among other things, stated interest on a "variable rate date instrument" that is unconditionally payable in cash or in property (other than in debt instruments of the issuer) at least annually at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Registered Note is denominated. Notice will be given in the relevant Final Terms when the Issuer determines that a particular Note will bear interest that is not QSI.

If the difference between a Registered Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., ¼ of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity, the Registered Note will not be considered to have OID. U.S. holders of Registered Notes with a *de minimis* amount of OID will include this OID in income, as capital gain, on a pro rata basis as principal payments are made on the Registered Note.

A U.S. holder of original discount Registered Notes will be required to include any QSI payments in income in accordance with the holder's method of accounting for U.S. federal income tax purposes. U.S. holders of OID Registered Notes that mature more than one year from their date of issuance will be required to include OID in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received. The amount of OID includible in income by a U.S. holder of an OID Registered Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. holder held the Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "**accrual period**" for an OID Registered Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity over (b) the sum of any qualified stated interest allocable to the accrual period. The yield to maturity of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of QSI) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "**adjusted issue price**" of an OID Registered Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortisation of any bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

A U.S. holder may make an election to include in gross income all interest that accrues on any Registered Note (including stated interest, acquisition discount, OID, *de minimis* OID and unstated interest, as adjusted by any amortisable bond premium) in accordance with a constant yield method based on the compounding of interest, and may revoke such election only with the permission of the Internal Revenue Service (the "**IRS**") (a "constant yield election").

Certain Registered Notes bearing interest at a variable rate are subject to special OID rules. In the case of a variable rate Registered Note, both the yield to maturity and QSI will be determined as though the Registered Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable on the date of issue or, in the case of certain variable rate Registered Notes, the rate that reflects the yield to maturity that is reasonably expected for the variable rate Registered Note. In certain cases, variable rate Registered Notes that bear stated interest and are issued at par may have OID, with the result that the inclusion of interest in income may vary from the actual cash payments of interest made on such variable rate Registered Notes.

A Registered Note that matures one year or less from its date of issuance, a short-term Registered Note, will be treated as being issued at a discount and none of the interest paid on the Registered Note will be treated as QSI. In general, a cash method U.S. holder of a short-term Registered Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. Holders who so elect and certain other holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. holder who is not required and who does not elect to include the discount in income currently, any gain realised on the sale, exchange, or retirement of the short-term Registered Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Registered Notes in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Issuer may have an unconditional option to redeem, or U.S. holders may have an unconditional option to require the Issuer to redeem a Registered Note prior to its stated maturity date. Under applicable regulations, if the Issuer has an unconditional option to redeem a Registered Note prior to its stated maturity date, this option will be presumed to be exercised if, by utilising any date on which the Registered Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Registered Note as the stated redemption price at maturity, the yield on the Registered Note would be lower than its yield to maturity. If the U.S. holders have an unconditional option to require the Issuer to redeem a Registered Note prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Registered Note would be higher than its yield to maturity. If this option is not in fact exercised, the Registered Note would be treated solely for purposes of calculating OID as if it were redeemed, and a new Registered Note were issued, on the presumed exercise date for an amount equal to the Registered Note's adjusted issue price on that date. The adjusted issue price of an OID Registered Note is defined as the sum of the issue price of the Registered Note and the aggregate amount of previously accrued OID, less any prior payments other than payments of QSI.

Amortisable Bond Premium

If a U.S. holder purchases a Registered Note for an amount that is greater than the amount payable (other than payments of QSI) at maturity, the holder will be considered to have purchased the Registered Note with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Registered Note. A holder who elects to amortise bond premium must reduce his tax basis in the Registered Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the holder and may be revoked only with the consent of the IRS.

If a U.S. holder makes a constant yield election (as described under "*—Original Issue Discount*") for a Registered Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the holder's debt instruments with amortisable bond premium.

Sale, Exchange or Retirement of the Registered Notes

Upon the sale, exchange or retirement of a Registered Note, a U.S. holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the holder's adjusted tax basis in the Registered Note. A U.S. holder's adjusted tax basis in a Registered Note generally will equal the acquisition cost of the Registered Note increased by the amount of OID included in the Holder's gross income and decreased by the amount of any payment received from the Issuer other than a payment of QSI and the amount of any amortisable bond premium that the U.S. holder took into account. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. holder's foreign tax credit limitation. For these purposes, the amount realised does not include any amount attributable to accrued interest on the Registered Note. Amounts attributable to accrued interest are treated as interest as described under "*—Payments of Stated Interest*".

Except as described below, gain or loss realised on the sale, exchange or retirement of a Registered Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Registered Note has been held for more than one year. Exceptions to this general rule apply to the extent of any accrued discount on a short-term Registered Note not previously included in the holder's taxable income. See "*—Original Issue Discount*". In addition, other exceptions to this general rule apply in the case of foreign currency Registered Notes, and contingent payment debt instruments. See "*—Foreign Currency Registered Notes*" and "*—Contingent Payment Debt Instruments*". Certain non-corporate U.S. holders (including individuals) may qualify for preferential rates for U.S. federal income tax purposes with respect to long-term capital gains. The deductibility of capital losses is subject to limitation.

Contingent Payment Debt Instruments

If the terms of the Registered Notes provide for certain contingencies that affect the timing and amount of payments (including Registered Notes with a variable rates of interest that do not qualify as "variable rate debt instruments") they will be "contingent payment debt instruments" ("**CPDIs**") for U.S. federal income tax purposes. Under the rules that govern the treatment of CPDIs, no payment on such Registered Notes qualifies as QSI. Rather, a U.S. holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the CPDI and the CPDI's "projected payment schedule" as described below. The comparable yield is determined by the Issuer at the time of issuance of the CPDI. The comparable yield may be greater than or less than the stated interest, if any, with respect to the CPDI. Solely for the purpose of determining the amount of interest income that a U.S. holder will be required to accrue on a CPDI, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the CPDI equal to the comparable yield. Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the CPDI will pay.

For U.S. federal income tax purposes, a U.S. holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments in respect of an optionally exchangeable Registered Note, unless the holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS. A U.S. holder, regardless of the holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a CPDI at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the CPDI (as set forth below).

A U.S. holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a CPDI for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a CPDI for a taxable year:

- will first reduce the amount of interest in respect of the CPDI that a holder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of the amount of all previous interest inclusions under the CPDI over the total amount of the U.S. holder's net negative adjustments treated as ordinary loss on the CPDI in prior taxable years.

A net negative adjustment is not subject to the two per cent. floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to off-set future interest income in respect of the CPDI or to reduce the amount realised on a sale, exchange or retirement of the CPDI.

Upon a sale, exchange or retirement of a CPDI, a U.S. holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the holder's adjusted basis in the CPDI. A U.S. holder's adjusted basis in a Registered Note that is a CPDI generally will be the acquisition cost of the Registered Note, increased by the interest previously accrued by the U.S. holder on the Registered Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Registered Note. A U.S. holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a holder recognises loss above certain thresholds, the holder may be required to file a disclosure statement with the IRS (as described under "—*Reportable Transactions*").

A U.S. holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument including in satisfaction of a conversion right or a call right equal to the fair market value of the property, determined at the time of retirement. The holder's holding period for the property will commence on the day immediately following its receipt.

Foreign Currency Registered Notes

The rules applicable to foreign currency Registered Notes could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Registered Note to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Registered Notes are complex and may depend on the holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a holder should make any of these elections may depend on the holder's particular U.S. federal income tax situation. U.S. holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Registered Notes.

A U.S. holder who uses the cash method of accounting and who receives a payment of QSI in a foreign currency with respect to a foreign currency Registered Note will be required to include in income the U.S. Dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. Dollars at the time, and this U.S. Dollar value will be the U.S. holder's tax basis in the foreign currency. A cash method holder who receives a payment of QSI in U.S. Dollars pursuant to an option available under such Registered Note will be required to include the amount of this payment in income upon receipt.

An accrual method U.S. holder will be required to include in income the U.S. Dollar value of the amount of interest income (including OID, but reduced by amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Registered Note during an accrual period. The U.S. Dollar value of the accrued income will be determined by translating the income at the average rate of exchange in effect during the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. holder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. Dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period (or, where a holder receives U.S. Dollars, the amount of the payment in respect of the accrual period) and the U.S. Dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue OID.

An accrual method U.S. holder may elect to translate interest income (including OID) into U.S. Dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

OID and amortisable bond premium on a foreign currency Registered Note are to be determined in the relevant foreign currency.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as on the sale, exchange or retirement of the foreign currency Registered Note. Any exchange gain or loss will be ordinary income or loss as described below.

A U.S. holder's tax basis in a foreign currency Registered Note, and the amount of any subsequent adjustment to the holder's tax basis, will be the U.S. Dollar value amount of the foreign currency amount paid for such foreign currency Registered Note, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. holder who purchases a foreign currency Registered Note with previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. holder's tax basis in the foreign currency and the U.S. Dollar fair market value of the foreign currency Registered Note on the date of purchase.

Gain or loss realised upon the sale, exchange or retirement of a foreign currency Registered Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. Dollar value of the foreign currency principal amount of the Registered Note, determined on the date the payment is received or the Registered Note is disposed of, and (ii) the U.S. Dollar value of the foreign currency principal amount of the Registered Note, determined on the date the U.S. holder acquired the Registered Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Registered Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the holder on the sale, exchange or retirement of the foreign currency Registered Notes. The source of the foreign currency gain or loss will be determined by reference to the residence of the holder or the "qualified business unit" of the holder on whose books the Registered Note is properly reflected. Any gain or loss realised by these holders in excess of the foreign currency gain or loss will be capital gain or loss except, in the case of a short-term Registered Note, to the extent of any discount not previously included in the holder's income. Holders should consult their own tax advisor with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Registered Notes accrue.

A U.S. holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a foreign currency Registered Note equal to the U.S. Dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a foreign currency Registered Note is required to translate units of foreign currency paid or received into U.S. Dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations provided that the Registered Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realised by a U.S. holder on a sale or other disposition of foreign currency (including its exchange for U.S. Dollars or its use to purchase foreign currency Registered Notes) will be ordinary income or loss.

Medicare Contribution Tax

Certain U.S. holders that are individuals, estates or trusts will be required to pay an additional 3.8 per cent. Medicare tax on, among other things, interest on, and capital gains from the sale or other disposition of, Registered Notes.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Registered Notes and the proceeds from a sale or other disposition of the Registered Notes. A U.S. holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is furnished to the IRS.

Certain U.S. holders may be required to report to the IRS information with respect to their investment in Registered Notes not held through an account with a domestic financial institution. U.S. holders should consult their own tax advisors regarding any reporting obligations they may have as a result of their acquisition, ownership or disposition of Registered Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. holder may be required to treat a foreign currency exchange loss from the Registered Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year, if the U.S. holder is an individual or trust, or higher amounts for other U.S. holders. In the event the acquisition, ownership or disposition of Registered Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. In addition, the Issuer and its advisors may also be required to disclose the transaction to the IRS, and to maintain a list of U.S. holders, and to furnish this list and certain other information to the IRS upon written request.

U.S. holders should consult their own tax advisers regarding any filing or reporting requirements that may apply to their acquisition, ownership and disposition of Registered Notes. Failure to make certain filings can result in significant penalties.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

European Union

EU Savings Directive

Under the EU Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. Under such withholding system, tax will be deducted unless the recipient of the payment elects instead for an exchange of information procedure. The rate of withholding is 35 per cent. Belgium had previously operated a withholding system in relation to such payments, but has elected to apply the provision of information provisions that apply to the Member States (other than Austria and Luxembourg during the transitional period), with effect from 1 January 2010. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or collected by such a person for, an individual resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to an individual resident in, or certain limited types of entity established in, one of those countries or territories.

On 13 November 2008, the European Commission published a proposal for amendments to the EU Savings Directive. The proposal included a number of suggested changes which, if implemented, would broaden the scope of the rules described above.

Prospective investors in the Notes should consult their professional advisers if they have concerns about the potential impact of the EU Savings Directive.

ERISA AND CERTAIN OTHER U.S. CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans.

Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice (directly or indirectly) for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan. In considering an investment in the notes of a portion of the assets of any Plan, as defined below, a fiduciary should determine, among other things, whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any federal, state, local, non-U.S. or other laws, rules or regulations that are similar to such provisions of ERISA or the Code (collectively, "**Similar Laws**") relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Section 406 of ERISA and Section 4975 of the Code which are among the ERISA and Code fiduciary provisions governing plans, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which any of the Issuer, the Arranger or the Dealers or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. Unless otherwise provided in a supplementary prospectus or the relevant Final Terms, by its purchase of any Notes (or any interest in a Note), each purchaser (whether in the case of the initial purchase or in the case of a subsequent transfer) will be deemed to have represented and agreed either that (i) it is not and for so long as it holds a Note (or any interest therein) will not be an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan (each of the foregoing, a "**Benefit Plan Investor**"), or a governmental or other employee benefit plan which is subject to any U.S. federal, state or local law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (ii) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar U.S. federal, state or local law) for which an exemption is not available. Any purported purchase of a Note that does not comply with the foregoing shall be null and void *ab initio*.

Governmental plans and certain church and other U.S. plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal laws that are substantially similar to ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Notes.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

The sale of Notes to a Plan is in no respect a representation by the Issuer, the Arranger or the Dealers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

SUBSCRIPTION AND SALE

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated on or about 24 October 2013 (the "**Dealer Agreement**") between the Issuer, the Permanent Dealers and the Arranger, from time to time the Notes will be offered by the Issuer to the Permanent Dealers, and the Permanent Dealers may agree to purchase such Notes. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Certain of the Dealers and their respective affiliates have, in the past, performed investment banking and advisory services for, and provided credit facilities to, the Issuer for which they have received customary fees and expenses.

Each of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer in the ordinary course of their respective businesses. The Issuer may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any such credit facilities.

The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer or sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Notes are a part, as determined and certified to the Fiscal Agent by such Dealer (or, in the case of an identifiable tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable tranche purchased by or through it, in which case the Fiscal Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, a U.S. person and it will have sent to each Dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Dealer Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to QIBs in reliance on Rule 144A.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

(A) Where the D Rules are specified in the relevant Final Terms as being applicable in relation to any Tranche of Notes, each Dealer will be required to represent, undertake and agree (and each additional Dealer appointed under the Programme will be required to represent, undertake and agree) that:

(i) except to the extent permitted under the D Rules (a) it has not offered or sold, and will not offer or sell, any Bearer Notes to a person who is within the United States or its possessions or to a U.S. person, and (b) it has not delivered and will not deliver within the United States or its possessions Bearer Notes in definitive form that are sold during the restricted period;

(ii) it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees and agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. person, except as permitted by the D Rules;

(iii) if it is a U.S. person, it is acquiring the Bearer Notes for purposes of resale in connection with their original issuance and, if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulations §1.163-5(c)(2)(i)(D)(6);

(iv) with respect to each affiliate (if any) that acquires from such Dealer Bearer Notes for the purposes of offering or selling such Notes during the restricted period, such Dealer either repeats and confirms the representations, undertakings and agreements contained in sub-clauses (i), (ii), (iii) and (v) on such affiliate's behalf or agrees that it will obtain from such affiliate for the benefit of the Issuer the representations, undertakings and agreements contained in such sub-clauses (i), (ii), (iii) and (v); and

(v) shall obtain for the benefit of the Issuer the representations, undertakings and agreements contained in sub-clauses (i), (ii), (iii), (iv) and (v) of this paragraph from any person other than its affiliate with whom it enters into a written contract (a "**distributor**" as defined in United States Treasury Regulations §1.163-5(c)(2)(i)(D)(4)), for the offer or sale during the restricted period of the Bearer Notes.

(B) In addition, where the C Rules are specified in the relevant Final Terms as being applicable in relation to any Tranche of Notes, such Notes must in their original issuance, be issued and delivered outside the United States and its possessions and, accordingly, each Dealer will be required to represent, undertake and agree (and each additional Dealer will be required to represent, undertake and agree) that, in connection with the original issuance of the Notes:

(i) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Bearer Notes within the United States or its possessions; and

(ii) it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or such Dealer is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Bearer Notes.

Terms used in sub-clauses (A) and (B) have the meanings given to them by the Code and the regulations thereunder, including the C Rules and the D Rules.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Base Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) if the Final Terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable and the Issuer has consented in writing to its used for the purpose of that Non-exempt offer;

(ii) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(iii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

(i) in relation to any Notes which have a maturity of less than one year:

   (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business;

   (b) it has not offered or sold and will not offer or sell any Notes other than to persons:

      (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

      (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses;

   where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Republic of South Africa

Each Dealer has represented, warranted and agreed that it will not advertise, or solicit for or make an "offer to the public" (as such expression is defined in section 95 of the South African Companies Act, 2008, as amended (the "**SA Companies Act**")) of Notes (whether for subscription, purchase or sale) in South Africa. Accordingly, no advertisement for, solicitation of, or offer of Notes will be made to any person in South Africa; provided that (i) Notes may be offered to a limited number of institutional investors on a reverse-enquiry basis; (ii) such offer on a reverse-enquiry basis does not constitute an "offer to the public" (as such expression is defined in the SA Companies Act); and (iii) each such person to whom Notes are offered on a reverse-enquiry basis completes and returns to each of the Dealers a written declaration in the form set out below. Each Dealer has further represented, warranted and agreed that it will not advertise, solicit or offer (whether for subscription, purchase or sale) any Notes to any South African person the secondary market. The Prospectus accordingly does not, nor is it intended to, constitute a "prospectus" as defined in the SA Companies Act.

Each Dealer has acknowledged that no South African residents and/or their offshore subsidiaries (if any) may, without the prior written approval of the SARB, subscribe for or purchase any Note or beneficially hold or own any Note; provided that qualifying South African institutional investors with sufficient foreign portfolio capacity may, without the prior written approval of the SARB, utilise their pre-approved prudential offshore allowance to subscribe for or purchase any Notes, in which case they must provide a written declaration in the following form:

Form of Written Declaration

"To: [insert name and address of each of the Dealers]

We acknowledge that no South African resident and/or its offshore subsidiaries (if any) may, without the prior written approval of the South African Reserve Bank, subscribe for or purchase any Note to be issued by Transnet SOC Ltd under its U.S.$6,000,000,000 Global Medium Term Note Programme or beneficially hold or own any such Note; provided that qualifying South African institutional investors with sufficient foreign portfolio capacity may, without the prior written approval of the South African Reserve Bank, utilise their pre-approved prudential offshore allowance to subscribe for or purchase any such Notes.

We hereby confirm that we are a qualifying South African institutional investor with sufficient pre-approved prudential offshore allowance, for purposes of the above proviso and the Exchange Control Regulations, 1961 promulgated pursuant to the Currency and Exchanges Act, 1933, to purchase the Notes to be issued by Transnet SOC Ltd under its U.S.$2,000,000,000 Global Medium Term Note Programme, and that no prior written approval of the South African Reserve Bank is required for such purchase by us of such Notes.

Yours faithfully.

[signed]

[RELEVANT INVESTOR]

By:"

Republic of Italy

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that the offer of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") (the Italian Securities and Exchange Commission) pursuant to Italian securities legislation and, accordingly, Notes may not be offered, sold or delivered, nor may copies of this Base Prospectus or any other document relating to the Notes be distributed in the Republic of Italy in a public offer at large (*offerta al pubblico*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, in the Republic of Italy, the Notes:

(a) shall only be offered or sold to qualified investors (*operatori qualificati*), as defined in Article 2(1)(e) paragraphs of the Prospectus Directive, pursuant to Article 100 of Legislative Decree No. 58 of 24th February 1998, as amended ("**Financial Services Act**"); or

(b) shall only be offered or sold in circumstances which are exempted from the rules on public offer pursuant to Article 100 of the Financial Services Act and Article 34-*ter*, of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**Regulation No. 11971**").

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**"), CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws and regulations;

(ii) in compliance with any other applicable laws and regulations including any relevant notification or limitations which may be imposed by CONSOB or the Bank of Italy.

Provisions relating to the secondary market

Any investor purchasing the Notes should also note that in connection with the subsequent distribution of Notes (with a minimum denomination lower than €50,000 or its equivalent in another currency) in Italy, in accordance with Article 100-bis of Financial Services Act, where no exemption from the rules on solicitation applies under (a) and (b) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the intermediaries transferring the Notes being liable for any damages suffered by potential purchasers.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan, No. 25 of 1948, as amended, the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5 Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended)) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws, regulations and ministerial guidelines of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed (and each further Dealer appointed under the Programme will be required to agree) that it will comply with all relevant laws, regulations and directives in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes or publishes this Base Prospectus, any other offering material or any Final Terms (in all cases at its own expense) and neither the Issuer nor any other Dealer shall have responsibility therefor. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expenses.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes, by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Notes for its own account, or for the account of one or more QIBs and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

2. The Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

3. The purchaser of the Notes will be deemed to represent, warrant and agree that either (A) it is not and for so long as it holds a Note (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 the Code, or (iv) a governmental or other benefit plan which is subject to any U.S. federal, state or local law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (B) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar U.S. federal, state or local law) for which an exemption is not available.

4. The Rule 144A Notes, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

EACH PURCHASER OF THIS NOTE (OR ANY INTEREST THEREIN) WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 THE CODE, OR (IV) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

5. It understands that the Issuer, the Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

6. It understands that the Rule 144A Notes will be evidenced by a Rule 144A Global Certificate. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes pursuant to resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and is purchasing the Notes in an offshore transaction pursuant to Regulation S.

(ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(iii) The purchaser of the Notes (or any interest therein) will be deemed to represent, warrant and agree that either (A) it is not and for so long as it holds a Note (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to the Code, (iii) an entity whose underlying assets include the assets of any such employee benefit plan subject to ERISA or other plan subject to Section 4975 the Code, or (iv) a governmental or other benefit plan which is subject to any U.S. federal, state or local law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (B) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, any such substantially similar U.S. federal, state or local law) for which an exemption is not available.

(iv) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

EACH PURCHASER OF THIS NOTE (OR ANY INTEREST THEREIN) WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 THE CODE, OR (IV) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE WILL NOT RESULT IN A

PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE OR LOCAL LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

(v) It understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

(vi) It understands that the Notes offered in reliance on Regulation S will be represented by the Regulation S Global Certificate. Prior to the expiration of the distribution compliance period, before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

Transnet is a limited liability company incorporated in the Republic of South Africa and the majority of its assets and the assets of its subsidiaries are currently located outside the United States and the United Kingdom. In addition, the majority of Transnet's directors and executive officers are residents of countries other than the United States and the United Kingdom. As a result, it may be impossible for Noteholders to:

- effect service of process within the United States or the United Kingdom upon Transnet or any of its directors or executive officers named in this Base Prospectus; or
- enforce, in the U.S. or English courts, judgments obtained outside U.S. or English courts against Transnet or any of Transnet's directors and executive officers named in this Base Prospectus, including actions under the civil liability provisions of the U.S. securities laws or any state or territory of the United States.

In addition, it may be difficult for Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United States or the United Kingdom, liabilities predicated upon U.S. securities laws or upon English laws.

Choice of law

In any proceedings for the enforcement of the obligations of the Issuer under the Notes, the South African courts will generally give effect to the choice of foreign law as contemplated in the Notes as the governing law thereof.

Jurisdiction

Subject to what is set out below, the Company's (i) irrevocable submission under the Notes to the jurisdiction of a foreign court; and (ii) agreement not to claim any immunity to which it or its assets may be entitled, is generally legal, valid, binding and enforceable under the laws of the Republic of South Africa, and any judgment obtained in the foreign jurisdiction will be recognised and be enforceable by the courts of the Republic of South Africa without the need for re-examination of the merits. The appointment by the Company of an agent within the jurisdiction of a foreign court to accept service of process in respect of the jurisdiction of the foreign courts is generally valid and binding on the Company.

Under South African law, a court will not accept a complete ouster of jurisdiction, although generally it recognises party autonomy and gives effect to choice of law provisions. However, jurisdiction remains within the purview of the court and a court may, in certain instances, assume jurisdiction provided there are sufficient jurisdictional connecting factors. South African courts may, in rare instances, choose not to give effect to a choice of jurisdiction clause, if, for example, such choice is contrary to public policy. Proceedings before a court of the Republic of South Africa may be stayed if the subject of the proceedings is concurrently before any other court.

Recognition of foreign judgments

In cases connected with the mining, production, importation, exportation, refinement, possession, use or sale of or ownership to any matter or material, of whatever nature, whether within, outside, into or from the Republic of South Africa the permission of the South African Minister of Trade and Industry is required under the Protection of Businesses Act, 1978, as amended before a South African Court will give effect to a foreign judgment. Even if permission from the Minister of Trade and Industry is obtained, a South African court will not enforce a foreign judgment for multiple or punitive damages. Subject to these qualifications, an authenticated judgment obtained in a court of competent jurisdiction other than the Republic of South Africa will be recognised and enforced by ordinary action in accordance with procedures ordinarily applicable under South African law for the enforcement of foreign judgments; provided that the process is properly served, judgment was pronounced by a proper court of law, was final and conclusive (in the case of a judgment for money, on the face of it), has not become stale, and has not been obtained by fraud or in any manner opposed to natural justice or contrary to the international principles of due process and procedural fairness, the enforcement thereof is not contrary to South African public policy and the foreign court in question had jurisdiction and competence according to the applicable rules on conflict of laws. South African courts will not enforce foreign revenue or penal law.

Where obligations are to be performed in a jurisdiction outside the Republic of South Africa they may not be enforceable under the laws of the Republic of South Africa to the extent that such performance would be illegal or contrary to public policy under the laws of the Republic of South Africa, or the foreign jurisdiction or to the extent that the law precludes South African courts from granting extra-territorial orders.

Under the Recognition and Enforcement of Foreign Arbitral Awards Act, 1977 (the "**Enforcement Act**"), any foreign arbitral award may, subject to the provisions of sections 3 and 4 thereof, be made an order of court by any court. Any such award which has been made an order of court pursuant to the provisions of the Enforcement Act may be enforced in the same manner as any judgment or order to the same effect (subject to the provisions of the Protection of Businesses Act, 1978, which apply *mutatis mutandis* to foreign arbitral awards).

Effect of liquidation on civil proceedings

In general and subject to certain exceptions, civil proceedings (including arbitration proceedings) instituted by or against an insolvent entity are automatically stayed on the liquidation of the insolvent entity's estate until the appointment of a liquidator. A plaintiff/creditor wishing to continue with such proceedings against the insolvent entity must give notice of its intention to do so within a period of three weeks from the date of the first meeting of creditors, in accordance with the provisions of the Insolvency Act, 1936, failing which the proceedings lapse. In circumstances where the court finds that there was a reasonable excuse for a failure to give the requisite notice, it has a discretion to allow a plaintiff/creditor to continue with proceedings on such conditions as it thinks fit. Execution against the insolvent entity's assets is similarly stayed.

LEGAL MATTERS

Certain matters of U.S. law will be passed on for Transnet by Freshfields Bruckhaus Deringer LLP, Transnet's English and U.S. counsel, and certain matters of South African law will be opined on for Transnet by Poswa Incorporated, Transnet's South African counsel.

Certain matters of English law and U.S. law will be passed on for the Arranger and the Dealers by White & Case LLP, the Arranger's and the Dealers' English and U.S. counsel, and certain matters of South African law will be opined on for the Arranger and the Dealers by Mkhabela Huntley Adekeye Incorporated, the Arranger's and the Dealers' South African counsel.

INDEPENDENT AUDITORS

Transnet's Consolidated Financial Statements for the year ended 31 March 2013 included in this Base Prospectus have been audited by SizweNtsalubaGobodo, independent auditors as stated in their audit report appearing herein. Transnet's Consolidated Financial Information as at and for the six months ended 30 September 2013 have been reviewed by SizweNtsalubaGobodo, as stated in their review report appearing herein. The registered office of SizweNtsalubaGobodo is 20 Morris Street East, Woodmead, 2191, Johannesburg, the Republic of South Africa. Transnet's Consolidated Financial Statements as at and for the years ended 31 March 2012 and 2011 included in this Base Prospectus have been audited by Deloitte & Touche, independent auditors as stated in their audit report appearing herein. The registered office of Deloitte & Touche is The Woodlands, 20 Woodlands Drive, Woodmead, 2196, Johannesburg, the Republic of South Africa. Deloitte & Touche's appointment as Transnet's independent auditors expired on 31 March 2012.

The Shareholder Representative requires that external auditors under its control are rotated every five years. SizweNtsalubaGobodo's tenure concludes as at 31 March 2017.

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a description of the material indebtedness of the Group as at the date of this Base Prospectus.

As of 12 September 2013, Transnet had outstanding total financial indebtedness of approximately R76.0 billion.

2014 Bonds

On 6 July 2004, Transnet issued R4.0 billion 10.75 per cent. bonds due 15 July 2014 (the **"2014 Bonds**"). On 27 October 2004, Transnet issued an additional R2.0 billion of new 2014 Bonds, subject to the same terms as the original issuance. Both issuances were subscribed to by the Public Investment Corporation Limited (PIC). The 2014 Bonds are guaranteed by an unconditional and irrevocable guarantee of the Government. In June 2011, Transnet redeemed R2,999 million of the 2014 Bonds.

Covenants, Representations and Warranties

The 2014 Bond documentation contains customary operating and financial covenants common to agreements of this type which include covenants that restrict Transnet's ability to dispose of its whole or substantially the whole of its undertaking or the whole or the greater part of its assets.

The indenture relating to the 2014 Bonds contains customary events of default, including, but not limited to, non-payment, breach of other obligations set forth in the agreement, misrepresentation of or material non-compliance with a representation or warranty, and certain insolvency, winding-up and related events.

Euro Medium Term Note Programme

On 15 April 1998, Transnet established a U.S.$1.0 billion Euro Medium Term Note Programme (the "**1998 Programme**"). On 17 April 1998, Transnet issued R2 billion 13.5 per cent. notes due 18 April 2028 under (the "**1998 Programme**"). On 29 March 1999, Transnet issued a further R1.5 billion 10 per cent. notes due 30 March 2029 under the 1998 Programme. The notes issued under the 1998 Programme are guaranteed by an unconditional and irrevocable guarantee of the Government.

Covenants, Representations and Warranties and Events of Default

The 1998 Programme documentation contains representations and warranties and undertakings common to agreements of this type and include customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict Transnet's ability and the ability of its principal subsidiaries (being subsidiaries of Transnet whose profit before tax, gross assets or net tangible worth represents 10 per cent. or more of the consolidated profits before tax of the Transnet Group, or consolidated net tangible worth of the Transnet Group) to create or permit the creation of any encumbrances other than in certain circumstances including, but not limited to: those created in the ordinary course of business as security only for indebtedness under export, credit or trade finance facilities relating to those goods or documents of title; those otherwise prohibited but arising in the ordinary course of business but not exceeding U.S.$50 million, those granted to secure project finance indebtedness granted, and those encumbrances arising out of rights of the consolidation, combination or set-off of any bank or financial institution created in the course of a foreign exchange, swap or derivative transaction in the ordinary course of business.

The 1998 Programme documents contain customary events of default, including, but not limited to, non-payment, breach of other obligations set forth in the terms and conditions of the notes and the trust deed, ceasing to carry on or threatening to cease to carry on the whole or a substantial part of its business operations, unlawfulness or repudiation of obligations, certain insolvency, winding-up or related events, any default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity, denial, revocation or failure to receive any necessary governmental authorisation, permit or licence, failure of the guarantee to be in full force and effect or repudiation of the guarantee by the guarantor, and repossession of any asset leased, hired or purchased by the Issuer with a value in excess of U.S.$10,000,000 due to failure to pay under such lease or purchase agreement.

Domestic Medium Term Note and Commercial Paper Programme

On 13 September 2007, Transnet established its R30.0 billion Domestic Programme. On 25 October 2011, Transnet increased the size of its Domestic Programme to R55.0 billion. Pursuant to the establishment of the Domestic Programme, Transnet issued several series of notes (collectively the "**Programme Notes**"), and various commercial paper issuances. The issue date, description of the Programme Notes and the maturity dates for each of the Programme Notes and the issue date range, description of the outstanding commercial paper and the maturity dates for each of the commercial paper issuances as at 30 September 2013:

Notes Issues

ISSUE DATE	*DESCRIPTION OF NOTES*	*MATURITY DATE*
Between 17 September 2009 and 25 April 2013	R7,000,000.00 Senior Unsecured Fixed Rate Notes	17 September 2020
Between 6 November 2008 and 2 August 2012	R7,000,000,000.00 Senior Unsecured Fixed Rate Notes	6 November 2023
Between 19 August 2010 and 23 May 2013	R4,994,000,000.00 Senior Unsecured Fixed Rate Notes	19 August 2025
Between 9 November 2007 and 8 July 2010	R7,000,000,000.00 Senior Unsecured Fixed Rate Notes	14 November 2027
13 June 2013	R3,286,000,000 Senior Unsecured Floating Rate Notes	10 June 2016
22 August 2013	R1,500,000,000 Senior Unsecured Floating Rate Notes	22 August 2018

Commercial Paper Issues

ISSUE DATE	*DESCRIPTION OF NOTES*	*MATURITY DATE*
18 April 2013	R100,000,000 Senior Unsecured Fixed Rate Notes	17 October 2013
3 May 2013	R100,000,000 Senior Unsecured Fixed Rate Notes	31 October 2013
16 May 2013	R75,000,000 Senior Unsecured Fixed Rate Notes	14 November 2013
27 June 2013	R150,000,000 Senior Unsecured Fixed Rate Notes	27 December 2013
11 July 2013	R150,000,000 Senior Unsecured Fixed Rate Notes	9 January 2014
7 February 2013	R79,000,000 Senior Unsecured Fixed Rate Notes	6 February 2014
19 September 2013	R150,000,000 Senior Unsecured Fixed Rate Notes	20 March 2014
18 April 2013	R50,000,000 Senior Unsecured Fixed Rate Notes	17 April 2014
3 May 2013	R50,000,000 Senior Unsecured Fixed Rate Notes	25 April 2014
16 May 2013	R75,000,000 Senior Unsecured Fixed Rate Notes	15 May 2014
30 May 2013	R133,000,000 Senior Unsecured Fixed Rate Notes	29 May 2014

Covenants, Representations and Warranties

The documents relating to the Domestic Programme contain representations and warranties and undertakings common to agreements of this type and include customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict Transnet's ability and the ability of its material subsidiaries to: create or permit to the creation of any encumbrances other than those permitted under the programme, and form or procure the formation of a trust or appoint or procure the appointment of an agent to hold any security rights for the benefit or on behalf of noteholders.

The Programme documents contain customary events of default, including, but not limited to, non-payment, breach of other obligations set forth in the agreement, failure to obtain any necessary consent, licence, approval or authorisation, and certain insolvency, winding-up or related events.

FNB Corporate Facility

On 6 October 2009, Transnet, as borrower, and FNB Corporate, as lender, entered into a facility agreement which provides for limited types of borrowing by Transnet to fund certain types of activities as detailed in the table below.

Facility	*Original Principal Amount (R millions)*
Asset Based Finance Facility	16
Working Capital	1,000
Guarantees	10
Forward Exchange Contracts	37*
Derivative Products	130*
Hedging facilities	1,150
Electronic Funds Transfer	550
First Auto Facility	70
Total	2,963

* Exposures under these facilities are subject to mark to market adjustments as well as additional adjustments for potential future market volatility.

Interest

Net credit balances attract interest at FNB Corporate's corporate base rate as quoted from time to time plus 3.00 per cent. Interest accrues on the debit balances of any of the draft not forming part of the cash management group. Such interest is levied at the FNB Corporate's prime rate, minus 0.50 per cent. compounded monthly. Interest is calculated on a daily outstanding balance and capitalised monthly in arrears.

Interest due on any form of utilisation that is subject to the completion of a transaction annexure is paid in accordance with the terms set forth in each transaction annexure. In the absence of terms and conditions relating to interest in a transaction annexure, the terms and conditions relating to interest as set forth in the facility agreement apply.

Covenants, Representations and Warranties and Events of Default

The facility agreement contains representations and warranties and undertakings common to agreements of this type and include customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict Transnet's ability and the ability of its subsidiaries to: create or permit to exist any security or preference (other than one created by operation of law) for any indebtedness or contingent indebtedness of Transnet; create or permit to subsist any encumbrances, sell or dispose of its assets, incur or have outstanding certain borrowings, guarantees, loans or hedges, and reduce share capital.

The facility agreement contains customary events of default, including, but not limited to, non-payment, breach of other obligations set forth in the agreement, misrepresentation, certain insolvency, winding-up or related events, and any cross default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity.

Nedbank Locomotive Financing Agreement

On 11 September 2013, Transnet signed a R1.1 billion financing agreement from Nedbank Limited for the funding of 53 model C30-ACi locomotives, whose kits were purchased from General Electric South Africa Technologies (Pty) Ltd and built by Transnet Engeneering. The financing will be supported by a 100 per cent. political and commercial risk guarantee by the Export-Import Bank of the United States, pursuant to which Transnet is required to grant security by way of a first ranking mortgage over the locomotives. As of the date of this Base Prospectus, this financing is undrawn.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [●]

Transnet SOC Ltd

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$6,000,000,000
Global Medium Term Note Programme

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the Base Prospectus dated [●] 2013 [and the supplemental Base Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in the Relevant Member State)) (the "**Prospectus Directive**", and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [●]] which have been incorporated by reference into the Base Prospectus dated [●] 2012 (the "**Original Conditions**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in the Relevant Member State)) (the "**Prospectus Directive**", and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms, the Prospectus dated [●] 2012 and [and the supplemental Prospectuses dated [●] and [●] and the Original Conditions]. The Prospectus [and the supplemental Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].

1.	Issuer:	Transnet SOC Ltd
2.	[(i)] Series Number: [(ii) Tranche Number: (if fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	[●] [●]
3.	Specified Currency:	[●]
4.	Currency Election: [Alternative Currency or Currencies	[Applicable]/[Not Applicable] [●] [●]]
5.	Aggregate Nominal Amount of Notes: [(i)] Series: [(ii) Tranche:	 [●] [●]]

6.	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
7.	(i) Specified Denominations:	[●]
	(ii) Calculation Amount:	[●]
8.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●]
9.	Maturity Date:	[●]
10.	Interest Basis:	[[●] per cent. Fixed Rate] [[●]] +/- [●] per cent. Floating Rate] [Zero Coupon]
11.	Redemption/Payment Basis:	[Redemption at par]
12.	Change of Interest or Redemption/Payment Basis:	[●]
13.	Put/Call Options:	[General Put Option] [Change of Control Put Option] [Call Option]
14.	[(i)] Status of the Notes:	[Senior]
	[(ii)] [Date approval for issuance of Notes obtained:	[●] [and [●], respectively]
15.	Method of distribution:	[Syndicated]/[Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions	[Applicable]/[Not Applicable]
(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrear]
(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]]/ not adjusted]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment date falling [in/on] [●]]
(v)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA/ISDA) / other]
(vi)	[Determination Dates:	[●] in each year]
17.	Floating Rate Note Provisions:	[Applicable/Not Applicable]
(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (*give details*)]
(v)	Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
(viii)	Screen Rate Determination:	
—	Reference Rate:	[●] month [LIBOR] [LIBID] [LIMEAN] [EURIBOR]
—	Interest Determination Date(s):	[●]
—	Relevant Screen Page:	[●]
(ix)	ISDA Determination:	
—	Floating Rate Option:	[●]

—	Designated Maturity:	[●]
—	Reset Date:	[●]
(x)	Margin(s):	[+/-][●] per cent. per annum
(xi)	Minimum Rate of Interest:	[●] per cent. per annum
(xii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiii)	Day Count Fraction:	[●]
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18.	Zero Coupon Note Provisions:	[Applicable/Not Applicable]
	Amortisation Yield:	[●] per cent. per annum

PROVISIONS RELATING TO REDEMPTION

19.	Call Option	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	[●] per Calculation Amount
(b)	Maximum Redemption Amount:	[●] per Calculation Amount
(iv)	Notice period:	[●]
20.	General Put Option:	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii)	Notice period:	[●]
21.	Change of Control Put Option:	[Applicable/Not Applicable]
(i)	Put Date:	[●]
(ii)	Change of Control Redemption Amount:	[●] per Calculation Amount
(iii)	Put Period:	[●]
22.	Final Redemption Amount of each Note:	[●] per Calculation Amount
(i)	Party responsible for calculating the Final Redemption Amount (if not the [Agent]):	[●]
(ii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
(iii)	Determination Date(s):	[●]
(iv)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/ or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
(v)	Payment Date:	[●]
(vi)	Minimum Final Redemption Amount:	[●] per Calculation Amount
(vii)	Maximum Final Redemption Amount:	[●] per Calculation Amount

23.	Early Redemption Amount Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]. [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] Registered Notes: [Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances specified in the Global Note Certificate]
25.	Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable]/[[●]]
26.	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes]/[No]

DISTRIBUTION

27.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
28.	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
29.	U.S. Selling Restrictions:	[Reg S Compliance Category for all Notes: TEFRA C/TEFRA D for Bearer Notes]
30.	Additional selling restrictions:	[Not Applicable/*give details*]

[PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [London Stock Exchange's regulated market] of the Notes described herein pursuant to the U.S.$6,000,000,000 Global Medium Term Note Programme of Transnet SOC Ltd].

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By: ____________________________________

Duly authorised

By: ____________________________________

Duly authorised

PART B—OTHER INFORMATION

1.	**LISTING AND ADMISSION TO TRADING**	
(i)	Listing	[London]
(ii)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [●]] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority with effect from [●].] [Not Applicable.]
(iii)	Estimate of total expenses related to admission to trading:	[●]

2. **RATINGS**

Ratings:

The Notes to be issued [have been] [are expected to be] rated:
[Standard & Poor's: [●]]
[Moody's: [●]]
[Fitch: [●]]
[*Insert legal name of particular credit rating agency entity providing rating*] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").]

[*Insert legal name of particular credit rating agency entity providing rating*] is established in the EEA and has applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), although notification of the corresponding registration decision has not yet been provided by the [relevant competent authority] /[European Securities and Markets Authority.]

[*Insert legal name of particular credit rating agency entity providing rating*] is established in the EEA and is neither registered nor has it applied for registration under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

[*Insert legal name of particular credit rating agency entity providing rating*] is not established in the Notes but the rating it has given to the Notes is endorsed by [insert legal name of credit rating agency], which is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

[*Insert legal name of particular credit rating agency entity providing rating*] is not established in the EEA but is certified under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

[*Insert legal name of particular credit rating agency entity providing rating*] is not established in the EEA and is not certified under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not

	issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Need to include a description of any interests, including conflicting ones, that are material to the issue/ offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer".]

4. [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

[(i) Reasons for the offer:	[●]
[(ii)] Estimated net proceeds:	[●]
[(iii)] Estimated total expenses:	[●]

5. [*Fixed Rate Notes only—YIELD*

Indication of yield:	[●]

6. OPERATIONAL INFORMATION

ISIN:	[●]
Common Code:	[●]
CUSIP Number:	[●]
Any clearing system(s) other than Euroclear Bank S.A./N.V., Clearstream Banking, société anonyme and/or DTC and the relevant identification number(s):	[Not Applicable/give name(s) and number(s) [and address(es)]]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying and Transfer Agent(s):	[●]
Names and addresses of additional Paying and Transfer Agent(s) (if any):	[●]

GENERAL INFORMATION

1. **Listing:** The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of one or more Certificates in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about [●] 2013. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction.

2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme. The establishment and update of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on [●]. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of its obligations under the Notes.

3. **Significant/Material Change:** There has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries (taken as a whole) since 31 March 2013.

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries (taken as a whole) since 30 September 2013.

4. **Yields:** The yield for any particular Tranche of Notes will be specified in the applicable Final Terms and will be calculated at the Issue Date on the basis of the Issue Price. The applicable Final Terms in respect of any Floating Rate Bonds will not include any indication of yield. The yield specified in the applicable Final Terms in respect of a Tranche of Note will not be an indication of future yield.

5. **Legal and Arbitration Proceedings:** There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had, during the 12 months preceding the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer or the Group.

6. **Clearing Systems:** The Notes have been accepted for clearance through the Euroclear, Clearstream, Luxembourg and/or DTC systems (which are the entities in charge of keeping the records). The appropriate Common Code, the ISIN and/or the CUSIP Number (and, where applicable, the identification number, together with any further appropriate information, for any other relevant clearing system) for each Series of Notes will be specified in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg. The address of the DTC is 55 Water Street, New York, NY 10041. The address of any alternative clearing system will be specified in the relevant Final Terms.

7. **Bearer Notes:** Each Bearer Note with an original maturity of more than one year issued in compliance with the D Rules, Receipt, Coupon and Talon will bear the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code of 1986, as amended".

8. **Issue Price:** The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

9. **Documents Available:** For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer:

(i) the Agency Agreement (which includes the form of the Notes, Receipts, Coupons, Talons and Certificates);

(ii) the Dealer Agreement;

(iii) the Deed of Covenant;

(iv) the constitutional documents of the Issuer;

(v) the Consolidated Financial Statements of the Issuer at and for the three years ended 31 March 2013, 2012 and 2011;

(vi) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);

(vii) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Prospectus; and

(viii) the most recently prepared memorandum containing the disclosure requirements of the Commercial Paper Regulations published in Government Notice 2172 in Government Gazette 16167 of 14 December 1994 under section 90 of the South African Banks Act, 1990 as amended to the extent they are applicable.

This Base Prospectus and each Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/prices-and-news/prices-news/home.htm.

10. **Financial Statements:** Copies of the Issuer's Consolidated Financial Statements and the Interim Consolidated Financial Statements may be obtained, and copies of the Agency Agreement will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.

11. **Auditors:** The Consolidated Financial Statements of the Issuer have been audited without qualification for the year ended 31 March 2013 by SizweNtsalubaGobodo, independent auditors, 20 Morris Street East, Woodmead 2191, Johannesburg, the Republic of South Africa. The Consolidated Financial Statements of the Issuer have been audited without qualification for the years ended 31 March 2012 and 2011 by Deloitte & Touche, independent auditors, The Woodlands, 20 Woodlands Drive, Woodmead 2196, the Republic of South Africa. SizweNtsalubaGobodo and Deloitte & Touche have given, and not withdrawn, their written consent to the inclusion of their auditors' reports in this Base Prospectus in the form and context in which it is included. For the purposes of Prospectus Rule 5.5.4R(2)(f) SizweNtsalubaGobodo and Deloitte & Touche have authorised the contents of their auditors' reports referred to above as part of this Base Prospectus. SizweNtsalubaGobodo and Deloitte & Touche accept responsibility, as applicable, for the auditors' reports contained in this Base Prospectus. To the best of the knowledge and belief of SizweNtsalubaGobodo and Deloitte & Touche (who have taken all reasonable care to ensure that such is the case) the information contained in the auditors' reports, as applicable, is in accordance with the facts and contains no omission likely to affect their import. These declarations are included in this Base Prospectus in compliance with Annex IX item 1.2 in Appendix 3 to the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the U.S. Securities and Exchange Commission under Section 7 of the Securities Act. As the Notes have not and will not be registered under the Securities Act, SizweNtsalubaGobodo and Deloitte & Touche have not filed a consent under Section 7 of the Securities Act.

12. **Registered and Telephone Number:** Transnet SOC Ltd's registration number is 1990 /000900/ 30. Transnet SOC Ltd's telephone number is +27 11 308 2600.

GLOSSARY

The definitions set out below apply throughout this document unless the context requires otherwise.

"**1998 Programme**"	the U.S.$1.0 billion Euro Medium Term Note Programme established by the Company on 15 April 1998;
"**2014 Bonds**"	the R4.0 billion, 10.75 per cent. bonds issued by the Company due 15 July 2014;
"**AC**"	means alternating current;
"**ACSA**"	the Airports Company South Africa SOC Ltd, a company incorporated in the Republic of South Africa with registration number 1993/004149/06 whose registered office is at The Maples, Riverwoods, 24 Johnson Road, Gauteng, 2008;
"**ACTT**"	the Anti-Corruption Task Team;
"**AEL**"	an atmospheric emission licence issued by the atmospheric emission licensing authority;
"**AEMFC**"	the African Exploration Mining and Finance Corporation;
"**AFU**"	the Asset Forfeiture Unit;
"**AG**"	the Auditor-General;
"**ANC**"	the African National Congress;
"**Arranger**"	Deutsche Bank AG, London Branch;
"**ART**"	antiretroviral treatment;
"**ARV**"	antiretroviral;
"**AU**"	the African Union;
"**Audit Committee**"	the audit committee of the Company;
"**Australian Dollars**" or "**AUD**"	the lawful currency of Australia;
"**Avtur**"	aviation turbine fuel;
"**BACSA**"	Business Against Crime South Africa;
"**Banking Act**"	Legislative Decree, No. 385 of 1 September 1993, as amended;
"**Base Prospectus**"	the base prospectus attached to this electronic transmission;
"**BBBEE**"	broad based black economic empowerment;
"**BBBEE Act**"	the Broad Based Black Economic Empowerment Act, 2003, as amended;
"**BCEA**"	the Basic Conditions of Employment Act, 1997, as amended;
"**BCOA**"	the Biodiversity Conservation Offset Area;

"**Bearer Notes**"	the Notes of each Series issued in bearer form;
"**BEE**"	black economic empowerment;
"**Benefit Plan Investor**"	has the meaning given in "ERISA and Certain Other U.S. Considerations";
"**BLNS countries**"	Botswana, Lesotho, Namibia and Swaziland;
"**Board Acquisitions and Disposals Committee**"	the board acquisitions and disposal committee of the Company;
"**Board of Directors**"	the board of directors of the Company from time to time;
"**Board Risk Committee**"	the board risk committee of the Company;
"**British Pounds**", "**Pounds**" or "**£**"	the lawful currency of the United Kingdom;
"**Business Information Management Committee**"	the business information management committee of the Company;
"**C Rules**"	the United States Treasury Regulations §1.163-5(c)(2)(i)(c);
"**Capital Expenditure Programme**"	Transnet's current capital expenditure programme;
"**CAPIC**"	the capital investment committee of the Company;
"**Capital Investment Committee**"	the capital investment committee of the Company;
"**CARA**"	the Criminal Assets Recovery Account;
"**Certificate**"	each registered certificate representing Registered Notes;
"**CJS**"	criminal justice system;
"**CTF**"	the Clean Technology Fund;
"**Clearstream, Luxembourg**"	Clearstream Banking, *société anonyme*;
"**the Code**"	the Internal Revenue Code of 1986, as amended;
"**Codes**"	the Codes of Good Practice issued by the Department of Trade and Industry of the Government;
the "**Committee**"	a Committee of Central Bank Governors in the SADC;
"**Common Depository**"	the common depositary to which Global Notes may be deposited on the issue date;
"**Common Monetary Area**" or "**CMA**"	the Republic of South Africa, Namibia and the Kingdoms of Swaziland and Lesotho;
"**CPS**"	country partnership strategy;
"**CPFs**"	community police forums;
the "**Company**", "**Transnet**" or **the** "**Issuer**"	Transnet SOC Ltd, a company incorporated in the Republic of South Africa with registration number 1990/000900/30 whose registered office is at Carlton Centre, 150 Commissioner Street, Johannesburg, 2001;

"**Consolidated Financial Statements**"	the Group's audited consolidated financial statements as at and for Financial Years 2013, 2012 and 2011;
"**Corporate Governance and Nominations Committee**"	the corporate governance and nominations committee of the Company;
"**Corporate Plan**"	the corporate plan submitted by the Company to the Minister of Finance of the Republic of South Africa under the Public Finance Management Act, 1999, as amended;
"**corporatisation**"	the reorganisation of Transnet National Ports Authority into a separate corporate entity;
"**CRA Regulation**"	Regulation (EU) No 1060/2009;
"**Custodian**"	means the custodian to which a Rule 114A Global Certificate may be deposited on the relevant issue date;
"**DBSA**"	the Development Bank of South Africa;
"**DC**"	means direct current;
"**DCCO**"	Detective court case offices;
"**DCS**"	the Department of Correctional Services;
"**DCT**"	the Port of Durban Container Terminal;
"**DDOP**"	the Durban Dig-Out Port;
"**DEA**"	the Department of Environmental Affairs of the Government;
"**Dealer Agreement**"	the dealer agreement dated on or about 24 October 2013 between the Issuer, the Permanent Dealers and the Arranger;
"**Dealers**"	all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches of Notes, these being Deutsche Bank AG, London Branch, Barclays Bank PLC and Goldman Sachs International;
"**Deed of Covenant**"	the deed of covenant dated on or around 24 October 2013 governing individual investors' rights against the Issuer;
"**Definitive Notes**"	Definitive Notes, interests in which can be obtained by exchanging interests in Temporary Global Notes;
"**Department of Transport**"	the Department of Transport of the Government;
"**DIFR**"	the disabling injury frequency rate measuring the number of work-related injury rate that result in fatalities, permanent disability, partial disability or temporary disability per 200,000 employee hours;
"**DJP**"	the Durban to Johannesburg Pipeline;
"**DMTN**"	Domestic Medium Term Note;
"**DMR**"	the Department of Mineral Resources;
"**DoJCD**"	the Department of Justice and Constitutional Development;

"**DPCI**"	the Directorate for Priority Crime Investigation;
"**Draft ICM Amendment Bill**"	the Draft National Environmental Management: Integrated Coastal Management Amendment Bill;
"**DTC**"	The Depository Trust Company;
"**DTI**"	the Department of Trade and Industry of South Africa;
"**ECOSOC**"	the Economic and Social Council of the United Nations;
"**EEA**"	the European Economic Area;
"**EIA**"	the Environmental Impact Assessment;
"**EMSCF**"	the Environmental Management System Control Framework;
"**Enforcement Act**"	the Recognition and Enforcement of Foreign Arbitral Awards Act, 1977, as amended;
"**Engineering**"	Transnet Engineering;
"**ERISA**"	the U.S. Employee Retirement Income Security Act, 1974, as amended;
"**ERISA Plans**"	employee benefit plans subject to ERISA;
"**ERM**"	Enterprise-Wide Risk Management;
"**Eskom**"	Eskom Holdings SOC Ltd, a company incorporated in the Republic of South Africa with registration number 2002/015527/06 whose registered office is at Megawatt Park, 2 Maxwell Drive, Sunninghill, Gauteng, 2157;
"**EU**"	the European Union, first established by the treaty made at Maastricht on 7 February 1992;
"**Euro**"**,** "**EUR**" or "**€**"	the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;
"**Euroclear**"	Euroclear UK & Ireland Limited, a company incorporated in England and Wales with registered number 02878738 whose registered office is at 33 Cannon Street, London EM4M 5SB, UK;
"**EU Savings Directive**"	EC Council Directive 2003/48/EC;
"**Exchange Act**"	the United States Securities Exchange Act of 1934, as amended;
"**ExCon**"	the Financial Surveillance Department of the SARB;
"**FCA**"	the Financial Conduct Authority of the United Kingdom, which has replaced the FSA;
"**F-factor**"	the allowed revenue to meet debt obligations;
"**FIC**"	the Financial Intelligence Centre;
"**FIEA**"	the Financial Instruments and Exchange Act of Japan, No. 25 of 1948, as amended;
"**Final Terms**"	the relevant final terms in respect of the issue of any Notes;

"**Finance Committee**"	the finance committee of the Company;
"**Financial Services Act**"	Legislative Decree, No. 58 of 24 February 1998, as amended;
"**Financial Period**"	a Financial Year of the Company or the first financial quarter of a given year;
"**Financial Year**"	the financial year of the Company ended 31 March of the relevant year;
"**Freight Rail**"	Transnet Freight Rail;
"**FSA**"	the Financial Services Authority of the United Kingdom, which has been replaced by the FCA;
"**FSMA**"	the Financial Services and Markets Act 2000, as amended;
"**FTA**"	the SADC Free Trade Area;
"**FTP**"	the Financial Transactions Plan;
G-8	the Group of Eight Industrialised Countries;
"**Gas Act**"	the Gas Act, No 48 of 2001;
"**GATT**"	the General Agreement on Tariffs and Trade;
"**GCH**"	gross crane moves per hour;
"**Global Certificates**"	the Rule 144A Global Certificate together with the Regulation S Global Certificate;
"**Global Notes**"	the Permanent Global Notes together with the Temporary Global Notes;
"**GMTN**"	Global Medium Term Note;
"**Government**"	the Government of the Republic of South Africa;
"**Group**"	means the Issuer, its operating divisions and its subsidiaries;
"**Group Exco**"	the Group Executive Committee;
"**Group RMO**"	the Group Result Management Office;
"**GT**"	gross tonnage;
"**GTK**"	gross tonne kilometres, a unit of measurement of the total gross weight (in metric tonnes) of general freight loaded and empty active wagons multiplied by the distance (in kilometres) travelled by the general freight locomotives;
"**HANIS**"	the Home Affairs National Identification System;
"**Hazardous Substances Act**"	the Hazardous Substances Act, 1973, as amended;
"**Human Resources Committee**"	the human resources committee of the Company;
"**IAS**"	International Accounting Standard;

"**IBRD**" the International Bank for Reconstruction and Development;

"**ICM**" the National Environmental Management: Integrated Coastal Management Act, 2008, as amended;

"**ICMS**" integrated case management system;

"**ICT**" means information communication and technology;

"**IDA**" the International Development Association;

"**IEC**" the Independent Electoral Commission;

"**IFC**" the International Finance Corporation;

"**IMF**" the International Monetary Fund;

"**IMS**" Information Management Services;

"**Income Tax Act**" the South African Income Tax Act, 1962 as amended;

"**Investor's Currency**" a currency or currency unit of an investor's financial activities;

"I**SPS Code**" the International Ship and Port Facility Security Code;

"**Japanese Yen**", "**Yen**", "**JPY**" or "**¥**" the lawful currency of Japan;

"**JCPS**" the Justice, Crime Prevention and Security;

"**JSC**" the Judicial Service Commission;

"**King III**" the King Report on Governnace for South Africa, 2009;

"**KZN**" KwaZulu-Natal;

"**Legal Succession Act**" the Legal Succession to the South African Transport Services Act, 1989, as amended;

"**LICs**" low income countries;

"**London Stock Exchange**" London Stock Exchange plc or its successor(s);

"**LRA**" the Labour Relations Act, 1995, as amended;

"**MAD**" the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Mutual Acceptance of Data;

"**Market**" the London Stock Exchange's regulated market;

"**MDR TB**" multi drug resistant tuberculosis;

"**MDS**" the Group's market demand strategy;

"**MHSA**" the Mine Health and Safety Act, 1996, as amended;

"**MIGA**" the Multilateral Investment Guarantee Agency;

"**MIGDETT**" the Mining Industry Growth, Development and Employment Task Team;

"**Mining Charter**"	the Broad-Based Socio-Economic Empowerment Charter for the South Africa Mining Industry published on 13 August 2004;
"**MPC**"	the Monetary Policy Committee of the SARB;
"**MPRDA**"	the Mineral and Petroleum Resources Development Act, 2002, as amended;
"**MTBPS**"	the Medium Term Budget Policy Statement;
"**MTEF**"	the medium term expenditure framework;
"**NAB**"	New Arrangements to Borrow;
"**NatCor**"	Natal Corridor;
"**National Energy Regulator Act**"	the National Energy Regulator Act, 2004, as amended;
"**National Key Points Act**"	The National Key Points Act, 1980 as amended;
"**National Ports Authority**"	Transnet National Ports Authority;
"**National Railway Safety Regulator Act**"	the National Railway Safety Regulator Act, 2002, as amended;
"**NCT**"	the Ngqura Container Terminal;
"**NEMA**"	the National Environmental Management Act, 1998, as amended;
"**NEMQA**"	the National Environmental Management: Air Quality Act, 2004, as amended;
"**NERSA**"	the National Energy Regulator of South Africa;
"**NHI**"	the National Health Insurance;
"**NMPP**"	the New Multi-Purpose Pipeline;
"**Non-exempt Offer**"	an offer of Notes which, as specified in the Final Terms in relation to the Notes, may be made other than pursuant to Article 3(2) of the Prospectus Directive in the Relevant Member State;
"**Notes**"	means the medium term notes issued under the Programme;
"**NPA**"	the National Prosecuting Authority;
"**NPCC**"	a National Ports Consultative Committee Meeting;
"**NSP**"	the National Strategic Plan on HIV/AIDS and TB from 2012 to 2016;
"**OCIUs**"	Organised Crime Investigation Units;
"**OCJ**"	the Office of the Chief Justice;
"**OECD**"	the Organisation for Economic Cooperation and Development;
"**Official List**"	the list maintained by the UK Listing Authority in accordance with section 74(1) of FSMA for the purposes of Part VI of FSMA;
"**Parliament**"	the Parliament of the Republic of South Africa;

"**Passenger Rail Agency of South Africa**"	a separate state-owned company responsible for passenger rail transport in South Africa;
"**Permanent Dealers**"	means the persons listed as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated;
"**Permanent Global Note**"	a permanent global note, an interest in which can generally be obtained by exchanging an interest in a Temporary Global Note;
"**Petroleum Pipelines Act**"	the Petroleum Pipelines Act No 60 of 2003;
"**PFMA**"	the Public Finance Management Act, 1999, as amended;
"**PGRT**"	the Poverty Reduction and Growth Trust;
"**PICC**"	the Presidential Infrastructure Coordinating Committee;
"**Pipelines**"	Transnet Pipelines;
"**Plans**"	plans subject to section 4975 of the Code and ERISA Plans together;
"**Ports Act**"	the National Ports Act, 2005, as amended;
"**Port Directives**"	ports directives issued by the Ports Regulators under the Ports Act;
"**Ports Regulator**"	the ports regulator of the Republic of South Africa's ports;
"**Port Terminals**"	Transnet Port Terminals;
"**PPPFA**"	the Preferential Procurement Policy Framework Act, 2000, as amended;
"**President**"	the President of the Republic of South Africa;
"**Programme**"	the Global Medium Term Note Programme described in this Base Prospectus;
"**Prospectus Directive**"	the EU Directive 2003/17/EC and any implementing measure in each member state of the EEA that has implemented directive 2003/71/EC;
"**PSP**"	means private sector participation;
"**PSS**"	Port and Shipping Supplies (Pty) Ltd;
"**Public Policy and Regulation Committee**"	the public policy and regulation committee of the Company;
"**Qualified Institutional Buyer**" or "**QIB**"	a Qualified Institutional Buyer, as defined in Rule 144A under the Securities Act;
"**Registered Notes**"	the Notes of each Tranche to be issued in registered form;
"**Regulation No. 11971**"	CONSOB Regulation, No. 11971 of 14 May 1999, as amended;
"**Regulation S**"	Regulation S of the Securities Act;

"**Regulation S Global Certificate**"	the permanent registered global certificate representing Registered Notes which are sold in an "offshore transaction" within the meaning of Regulation S;
"**Relevant Implementation Date**"	the date on which the Prospectus Directive is implemented in the Relevant Member State;
"**Relevant Member State**"	a state which is a contracting party to the agreement on the EEA signed at Oporto on 2 May 1992, as it has effect for the time being, which has implemented the Prospectus Directive;
"**Remuneration, Social and Ethics Committee**"	the remuneration, social and ethics committee of the Company;
"**Resident**"	a "Resident" as defined in section 1 of the Income Tax Act, 1962, as amended;
"**Revised Mining Charter**"	the 2010 amendment to the Mining Charter;
"**RID**"	Rural Infrastructure Development;
"**Risk Management Committee**"	the risk management committee of the Company;
"**Royalty Act**"	the Mineral and Petroleum Resources Royalty Act, 2008, as amended;
"**Rule 144A**"	Rule 144A of the Securities Act;
"**Rule 144A Global Certificate**"	the permanent registered global certificate representing Rule 144A Notes;
"**Rule 144A Notes**"	registered Notes which are sold in the United States to QIBs within the meaning of Rule 144A;
"**SA Companies Act**"	the South African Companies Act, 2008, as amended;
"**SACF**"	the South African Corrections Forum;
"**SACU**"	the South African Customs Union;
"**SADC**"	the Southern African Development Community;
"**SADC-FIP**"	the SADC Finance and Investment Protocol;
"**SANRAL**"	the South African National Roads Agency SOC Ltd;
"**SAPS**"	the South African Police Service;
"**SARB**"	the South African Reserve Bank;
"**SARS**"	the South African Revenue Services;
"**Scorecard**"	the Scorecard for the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry attached to the Revised Mining Charter;
"**Second Hand Goods Act**"	the Second Hand Goods Act, 2009, as amended;
"**Securities Act**"	the United States Securities Act of 1933, as amended;
"**Series**"	series of Notes having one or more issue dates and on terms otherwise identical, in which the Notes will be issued;

“**Shareholder**”	the Government as the sole shareholder;
“**Shareholder Compact**”	means Transnet’s Shareholder Compact;
“**Shareholder Representative**”	the Department of Public Enterprises of the Republic of South Africa;
“**Similar Laws**”	any federal, state, local, non-U.S. or other laws, rules or regulations that are similar to such provisions of ERISA or the Code;
“**SIU**”	the Special Investigating Unit;
“**SOCs**”	state-owned companies;
“**South African Rand**”, “**Rand**”, “**R**” or “**ZAR**”	the lawful currency of the Republic of South Africa;
“**Southernport**”	Southernport Developments (Pty) Ltd;
“**Specified Currency**”	the currency specified as such in the terms or conditions of the Notes or, if none is specified, the currency in which the Notes are denominated;
“**Specified Denomination**”	the minimum specified domination of the Notes;
“**Spill Tech**”	a hazardous materials and items and pollution control products company, a close corporation incorporated in the Republic of South Africa with registration number 1994/001111/23 whose registered office is at 604/608 Umbilo Road, Congella, Durban, 4001;
“**Stabilising Manager(s)**”	the Dealer or Dealers (if any) named as the stabilising manager(s) in the relevant Final Terms;
“**STAT**”	ship turnaround time (in days);
“**STRIF**”	Social, Technical, Rural, Livelihood, Infrastructure and Facilitation;
“**T+3**”	the period of three business days within which trades in the United States secondary market are generally required to settle;
“**TAT**”	turnaround time (in days);
“**TB**”	tuberculosis;
“**TEFRA**”	the United States Tax Equity And Fiscal Responsibility Act of 1982, as amended;
“**Temporary Global Note**”	the temporary global note in bearer form without interest coupons, representing Bearer Notes;
“**TEU**”	twenty-foot equivalent unit, an inexact unit of cargo capacity used to describe the capacity of container ships and terminals;
“**TFTA**”	the Tripartite Free Trade Area;
“**Tonne kilometre**”	a unit of measurement of the freight transportation performed by a railroad during a given period, the total of which consists of the sum of the products obtained by multiplying the aggregate weight of each shipment in metric tonnes during the given period by the number of kilometres for which it is carried;

"**Tranche**"	a tranche of notes, one or more of which are comprised within a Series;
"**TSM**"	Transnet Security Management;
"**UN**"	the United Nations;
"**U.S.**"	the United States;
"**U.S. Dollar**", "**$**", "**USD**" or "**U.S.$**"	the lawful currency of the United States;
"**VaR**"	the value at risk;
"**Waste Act**"	the National Environmental Management: Waste Act, 2008, as amended;
"**WTO**"	the World Trade Organisation;
"**XDR TB**"	extremely drug resistant tuberculosis; and
"**YEM**"	the Youth in Energy and Mining.

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Sizwe
Ntsaluba
Gobodo

AUDIT · ADVISORY · FORENSICS

Independent auditors' review report to the Board of Directors of Transnet SOC Ltd

Report on the unaudited interim consolidated financial information

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Transnet SOC Ltd as at 30 September 2013 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the 6 month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with IFRS which includes IAS 34: Interim Financial Reporting and in the manner required by the Companies Act No. 71, 2008. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review by adopting procedures in terms of International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards, which include IAS 34: Interim Financial Reporting and the requirements of the Companies Act of South Africa.

SizweNtsalubaGobodo

SizweNtsalubaGobodo Inc.
Per: Collins Mashishi
Director
22 October 2013

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Consolidated Statement of Financial Position
as at 30 September 2013

	Reviewed 30 September 2013 R million	Audited 31 March 2013 R million	Reviewed 30 September 2012 R million
ASSETS			
Non-current assets			
Property, plant and equipment	**185,676**	176,921	165,326
Investment properties	**8,425**	7,938	7,938
Intangible assets	**541**	534	507
Investments in associates and joint ventures	**94**	93	85
Derivative financial instruments	**5,428**	3,821	653
Long-term loans and advances	**21**	4	4
Other investments and long-term financial assets	**697**	671	674
	200,882	189,982	175,187
Current assets			
Inventories	**3,885**	3,400	3,090
Trade and other receivables	**7,172**	6,248	6,359
Derivative financial instruments	**59**	34	61
Other short-term investments	**384**	1,359	1,709
Cash and cash equivalents	**5,618**	2,598	8,166
Assets classified as held-for-sale	**337**	275	211
	17,455	13,914	19,596
Total assets	**218,337**	203,896	194,783
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	**12,661**	12,661	12,661
Reserves	**76,855**	72,293	68,390
Attributable to the equity holder	**89,516**	84,954	81,051
Non-current liabilities			
Employee benefits	**3,063**	3,117	3,454
Long-term borrowings	**75,128**	66,770	66,370
Derivative financial instruments	**51**	62	81
Long-term provisions	**1,919**	1,902	1,811
Deferred taxation liabilities	**22,530**	20,471	18,952
Other non-current liabilities	**4,858**	6,221	4,902
	107,549	98,543	95,570
Current liabilities			
Trade payables and accruals	**12,223**	11,884	10,730
Short-term borrowings	**5,603**	6,318	4,823
Current taxation liability	**1**	56	79
Derivative financial instruments	**29**	23	41
Short-term provisions	**1,144**	991	1,076
Other current liabilities	**2,272**	1,127	1,413
	21,272	20,399	18,162
Total equity and liabilities	**218,337**	203,896	194,783

Consolidated Income Statement
for the period ended 30 September 2013

	Reviewed 1 April 2013 to 30 September 2013 R million	Restated 1 April 2012 to 30 September 2012 R million
Revenue	**28,461**	24,909
Net operating expenses excluding depreciation and amortisation	**(16,426)**	(14,818)
Profit from operations before depreciation, derecognition, amortisation and items listed below	**12,035**	10,091
Depreciation, derecognition and amortisation	**(4,838)**	(4,923)
Profit from operations before the items listed below	**7,197**	5,168
Impairment of assets	**(196)**	(159)
Post-retirement benefit obligation expense	**(220)**	(100)
Fair value adjustments	**126**	113
Profit before income from associates and joint ventures and net finance costs	**6,907**	5,022
Income from associates and joint ventures	**2**	14
Finance costs	**(2,875)**	(2,672)
Finance income	**127**	201
Profit before taxation	**4,161**	2,565
Taxation	**(1,308)**	(899)
Profit for the period	**2,853**	1,666

Consolidated Statement of Comprehensive Income
for the period ended 30 September 2013

	Reviewed 1 April 2013 to 30 September 2013 R million	Restated 1 April 2012 to 30 September 2012 R million
Profit for the period	**2,853**	1,666
Other comprehensive income		
Gains on revaluations	**1,850**	877
Actuarial gain on post-retirement benefit obligations	**117**	(255)
Gain/(loss) on cash flow hedges	**414**	(653)
Other comprehensive income	**2,381**	(31)
Taxation relating to components of other comprehensive income	**(672)**	(5)
Other comprehensive income/(loss) for the period, net of taxation	**1,709**	(36)
Total comprehensive income for the period	**4,562**	**1,630**

Headline Earnings reconciliation
for the period ended 30 September 2013

	Reviewed 1 April 2013 to 30 September 2013 R million	Restated 1 April 2012 to 30 September 2012 R million
Earnings attributable to equity holder	**2,853**	1,666
(Profit)/loss on the disposal of property, plant and equipment	**(31)**	15
(Reversal of impairment)/impairment of property, plant and equipment	**(2)**	2
Investment property fair value adjustments	**(464)**	(167)
Total taxation effects of adjustments	**96**	27
Headline earnings	**2,452**	1,543

Consolidated Statement of Changes in Equity

	Issued capital R million	Revaluation reserve R million	Foreign currency translation reserve R million	Actuarial gains and losses R million	Cash flow hedging reserve R million	Other reserve R million	Retained earnings R million	Total R million
Opening balances as at 1 April 2012	12,661	30,558	20	1,985	(76)	249	34,024	**79,421**
Restated total comprehensive income for the period	—	622	—	(188)	(470)	—	1,666	**1,630**
Total comprehensive income for the period (net of taxation) as previously reported	—	622	—	(289)	(470)	—	1,767	**1,630**
IAS 19 amendment (net of taxation)	—	—	—	101	—	—	(101)	**—**
Restated balances at 30 September 2012	12,661	31,180	20	1,797	(546)	249	35,690	**81,051**
Restated total comprehensive income for the period	—	580	(25)	168	707	—	2,473	**3,903**
Total comprehensive income for the period (net of taxation) as previously reported	—	580	(25)	68	707	—	2,573	**3,903**
IAS 19 amendment (net of taxation)	—	—	—	100	—	—	(100)	**—**
Balances at 31 March 2013	12,661	31,760	(5)	1,965	161	249	38,163	**84,954**
Total comprehensive income for the period (net of taxation)	—	1,333	—	78	298	—	2,853	**4,562**
Balances at 30 September 2013	12,661	33,093	(5)	2,043	459	249	41,016	**89,516**

Consolidated Statement of Cash Flows
for the period ended 30 September 2013

	Reviewed 30 September 2013 R million	Reviewed 30 September 2012 R million
Cash generated from operations	**12,530**	10,926
Security of supply petroleum levy	**—**	658
Changes in working capital	**(1,277)**	(1,817)
Cash generated from operations after changes in working capital	**11,253**	9,767
Finance costs	**(2,931)**	(2,630)
Finance income	**127**	200
Taxation (paid)/refunded	**(22)**	289
Settlement of post-retirement benefit obligations	**(115)**	(160)
Derivatives settled and raised	**(543)**	(349)
Cash flows from operating activities	**7,769**	7,117
Investment to maintain operations	**(6,250)**	(7,592)
Investment to expand operations	**(5,506)**	(4,535)
Total capital expenditure	**(11,756)**	(12,127)
Changes in investments, loans, advances and other investing activities	**978**	(153)
Cash flows utilised in investing activities	**(10,778)**	(12,280)
Borrowings raised	**9,424**	14,719
Borrowings repaid	**(3,395)**	(2,579)
Cash flows from financing activities	**6,029**	12,140
Net increase in cash and cash equivalents	**3,020**	6,977
Cash and cash equivalents at the beginning of the period	**2,598**	1,189
Total cash and cash equivalents at the end of the period	**5,618**	8,166

Notes to the Financial Statements
for the period ended 30 September 2013

1. Basis of preparation

The condensed consolidated interim financial statements of Transnet SOC Ltd (the "Group") (the "financial statements") are presented in South African Rands, rounded to the nearest million. These financial statements comply with IAS 34: *Interim Financial Reporting* ("IAS 34") and the requirements of the South African Companies Act 2008 (as amended). These financial statements do not include all of the information and footnotes required by International Financial Reporting Framework (IFRS) for complete financial statements. In the opinion of the Group, all adjustments considered necessary for fair presentation have been included.

Results of operations for the period ended 30 September 2013 are not necessarily indicative of results that may be expected for the full year. The 31 March 2013, consolidated statement of financial position amounts are derived from the audited consolidated financial statements but do not include all disclosures herein required by IFRS.

2. Group accounting policies

The condensed consolidated financial information has been prepared in compliance with International Accounting Standard (IAS) 34: Interim Financial Reporting and the Companies Act, 2008.

Financial information presented has been prepared using accounting policies that comply with International Financial Reporting Standards. The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 March 2013. New standards and interpretations issued by the International Accounting Standards Board effective for the period under review impacted the Group's financial results as follows:

IAS 19 Employee Benefits

The revised IAS 19 replaces the interest cost on the defined benefit obligation and the expected return on plan assets with net interest expense (income) on the net defined benefit liability (asset) calculated at a discount rate which reflects the yield on high quality corporate bonds or government debt. The change resulted in an increase in the net defined benefit expense in the income statement with a corresponding increase in actuarial gains (re-measurements) on the plan assets recognised in equity. The net impact on shareholder's equity is Rnil and an expense of R201 million after taxation to the Income Statement for the period ended 31 March 2013 (30 September 2012: R101 million). The standard is applied retrospectively.

IFRS 13 Fair Value Measurement

The standard requires that the fair value of financial assets and liabilities (including derivatives) should include the effect of credit risk. The change resulted in a R395 million fair value loss in the income statement with a corresponding credit to the derivative asset. The standard is applied prospectively from 1 April 2013.

3. Property, plant and equipment

Revaluation of property, plant and equipment

The Group assesses the revaluation of its pipeline networks and port infrastructure in line with its accounting policy, which requires an independent valuation every three years as well as index valuations in the intervening periods. During the period, an index valuation was performed on port infrastructure and port operating assets.

Accordingly, the carrying value of port facilities required a revaluation adjustment of R1.8 billion (2012: R1.3 billion) and the carrying value of pipeline networks required a revaluation adjustment of Rnil (2012: R423 million) in accordance with IAS 16: Property, plant and equipment.

Capital expenditure

The Group's capital investment for the period amounted to R11.2 billion (excluding capitalised borrowing costs), a 12.8 per cent. decrease from the prior period, as a result of capital optimisation and the lower activity level due to economic conditions. This represents an amount of R5.0 billion invested in the expansion of infrastructure and equipment, while R6.2 billion was invested in maintaining capacity.

3. Property, plant and equipment (continued)

Progress on major projects

Iron ore line expansions up to 60.0 mt

The iron ore line is the main export channel for iron ore from the mines in the Northern Cape to the Port of Saldanha. Rail capacity has increased to 60.0 mt and port capacity to 58.0 mt over the quay wall, resulting in iron ore volumes increasing to 27.6 mt for the period.

The pre-feasibility study to expand the capacity to 82.5 mtpa has been completed. Phase 1D, being the addition of a third tippler and associated rail works has been approved by the Transnet Board of Directors for approximately R1.6 billion. The third tippler will ensure that 60.0 mtpa can be exported on a sustainable basis as the existing two tipplers currently do not allow for any down time.

26 of the 32 locomotives needed to facilitate the increase in iron ore capacity to 60.0 mt have been tested and accepted into operations by September 2013 with the remaining locomotives expected to be accepted into operations later in the financial year. Transnet's investment in the iron ore expansion project and locomotive acquisitions for the period amounted to R348 million.

Coal line expansions up to 81.0 mt

The coal line is the main export channel for transporting coal and starts from the mines in Mpumalanga and ends at the Port of Richards Bay. Plans are in place to increase capacity to 81.0 mt in the near future and thereafter to 97.5 mt. The total expansion and sustaining capital investment over the MDS period is estimated to be R32.4 billion over the next seven years.

Final designs to expand capacity to 81.0 mtpa are nearing completion and certain work packages are already in execution. A significant number of procurement events are planned for October and November 2013. The land acquisition process has commenced for substations that need to be built on privately-owned land. Detailed discussions and negotiations with Eskom have been in progress for some time, to ensure that the upgrading of the electrical supply between Ermelo and Richards Bay is completed in line with the project's schedule. The project is expected to be completed by the third quarter of 2017.

All 110 Class 19E dual voltage locomotives have been delivered and accepted into operations. This will facilitate the planned expansion of the coal line to 81.0 mt. A total of R58 million was invested in the coal line expansion to 81.0 mtpa and R38 million on the acquisition of the Class 19E locomotives during the period.

35.5 mt of export coal was transported during the six months ended 30 September 2013.

General freight business (GFB)

An amount of R5.9 billion was invested in the general freight business and relates to the upgrade and maintenance of infrastructure and rolling stock. Transnet transported 45.2 mt of GFB volumes during the period.

All of the 100 Class 43 new diesel electric mainline locomotives were delivered and accepted into operations during Financial Year 2013. The project was accelerated; resulting in the delivery of locomotives two months earlier than initially planned. The project to acquire an additional 43 diesel locomotives for the general freight business was completed with these locomotives being accepted into operations by September 2013. An amount of R172 million has been invested on the acquisition of these locomotives for the period.

The contract for the supply of 95 Class 20E electric locomotives for GFB was signed in October 2012. The first locomotive has been built and will be shipped to South Africa. Ten units will be manufactured and assembled in China, and the remaining 85 locomotives will be assembled in Transnet Engineering's Koedoespoort plant.

Transnet obtained approval from the shareholder to acquire 1,064 locomotives on 12 August 2013 for the GFB at an estimated total cost of R38.6 billion.

3. Property, plant and equipment (continued)

The development of the business case to expand manganese throughput to 16.0 mt through the port of Ngqura is nearing completion and is expected to be lodged with the shareholder by January 2014 as per the requirements of Section 54 of the PFMA.

A total of R1.6 billion was invested on interventions to sustain the company's infrastructure during the period. In addition, to keep the condition of the rolling stock at an acceptable level, Transnet invested R1.1 billion and R1.0 billion in the maintenance and overhauling of locomotives and wagons respectively.

1,944 wagons have been built during the period as part of the project to acquire wagons for the Market Demand Strategy. The total investment in the wagons build amounted to R1.1 billion during the period.

Cape Town Container Terminal

The expansion of the Cape Town Container Terminal aims to increase capacity to 1.4 million TEUs to address growth in demand for containers in the Western Cape region. The capital project to deepen the berths and increase container handling capacity to 900,000 TEUs has been completed. Consideration is now being given to increase the container handling capacity to 1.4 million TEUs.

Capital invested in the Cape Town Container Terminal for the period ended 30 September 2013 amounted to R22 million.

Ngqura Container Terminal

The Ngqura Container Terminal paving was completed on time in December 2012. The design for the TNPA administrative building has been approved. Tenders for the early commencement of the building earthworks and piling will go out in October 2013. The Phase 1 landside roadways and bulk services for the liquid terminal facilities are in full construction and progressing well. The construction work is forecasted to be completed by March 2014.

Detail designs and environmental approvals are in progress for the construction of the tanker berth facility in Ngqura.

New Multi-Product Pipeline (NMPP)

The NMPP is a strategic investment to secure the supply of petroleum products to the inland market over the long-term. It is one of the largest and most complex multi-product pipelines in the world. As an innovative engineering project in concept and design, the pipeline component of the NMPP system of assets is buried underground over a distance of 717 kilometres.

The 24" trunkline (555 kilometres), three 16" inland pipelines (162 kilometres), three trunkline pump stations and two trunkline metering stations are operational, and construction on the Coastal Terminal (TM1) and Inland Terminal (TM2) is in progress. Currently, there are 4,108 people working on the project.

A one-in-thirty year inclement weather event (as defined by the South African Weather Service) in the Durban area has caused disruption to the TM1 schedule. This has forced the project team to revise the scheduled completion date to September 2014. Protected industrial action at both TM1 and TM2 has also had a schedule impact. TM2 will be available for Transnet operations prior to the September 2014 TM1 completion date.

As at the end of September 2013, R20 billion has been invested in the NMPP project, with the year to date investment figure reaching R1.7 billion.

Durban Dig-Out Port (DDOP)

The DDOP site acquisition from the Airports Company of South Africa SOC Ltd (ACSA) was concluded in September 2012 as per the sale agreement with ACSA. The site is proposed to be developed into a dig-out port to address demand requirements in the container, liquid bulk and automotive sectors up to 2040.

3. Property, plant and equipment (continued)

The pre-feasibility work on this project is on track to be completed by July 2014. Geotechnical studies indicate that there are no flaws in the ground that will impact port construction. Currently the marine contractor is progressing with the seabed vibro-cores and cone penetration tests on the proposed entrance channel being conducted. Offshore instrumentation has been installed for the monitoring of wind, wave and current conditions.

Certain procurement processes have commenced for the appointment of the environmental assessment practitioner. Some baseline studies relating to flora, fauna, and contamination have been completed.

4. Cash and cash equivalents

Cash generated from operations amounted to R12.5 billion (2012: R10.9 billion), an increase of 14.7 per cent. compared to the prior period, evidencing the ability of the Group to generate strong sustainable cash flows. Cash generated from operations after working capital changes also increased by 15.2 per cent. to R11.3 billion (2012: R9.8 billion). Working capital was negatively impacted by an increase in inventories to support maintenance activity, delayed payments from Passenger Rail Agency of South Africa (PRASA) and an increase in capital expenditure as a result of the Capital Investment Programme that drives the Market Demand Strategy.

The cash interest cover ratio at 3.4 times is significantly above the target of 3.0 times despite an increase in net finance costs, resulting from increased borrowings to fund the capital investment programme.

5. Non-current assets classified as held-for-sale and discontinued operations

Businesses and investments meeting the criteria set out in IFRS 5: *Non-current Assets Held-for-Sale and Discontinued Operations*, are classified as "non-current assets held-for-sale" and are reported as discontinued operations.

	Total		Other	
	30 September 2013	30 September 2012	**30 September 2013**	30 September 2012
Assets classified as held-for-sale				
Property, Plant and equipment	229	114	229	114
Investment Property	6	6	6	6
Other investments	102	91	102	91
Total	**337**	211	**337**	211

6. Deferred taxation

The deferred taxation liability increased to R22.5 billion (March 2013: R20.5 billion), mainly as a result of the current year's charge of R1.3 billion, after taking the deferred taxation impact of the Company's calculated taxation loss into consideration, together with the deferred taxation impact on the revaluation of property, plant and equipment, which has been recorded directly in equity.

7. Borrowings

The Group commenced the financial year with a cash balance of R2.6 billion. Despite the uncertain global financial market and economic growth outlook both locally and internationally, Transnet has raised R9.4 billion as at 30 September 2013, which is mainly made up of the following funding initiatives:

- R1.0 billion of commercial paper issuance;
- R1.0 billion of bank loans
- R5.7 billion of domestic bonds;
- R1.7 billion from the African Development Bank.

7. Borrowings (continued)

Furthermore, Transnet concluded the drawdown of R1.1 billion from the Import Export bank of the United States, with the cash flowing on 3 October 2013, for the funding of 53 of the 100 locomotives purchased from General Electric.

Transnet repaid borrowings amounting to R3.4 billion, which related predominantly to loans and commercial paper that matured during the period.

The gearing ratio deteriorated marginally to 44.7 per cent. compared to 44.6 per cent. as at 31 March 2013. This level is still well below the Group's target range of 50.0 per cent., reflecting the significant capacity available to continue with the counter cyclical investment strategy. The gearing ratio is not expected to exceed the target ratio over the medium-term.

8. Pension and post-retirement benefit obligations

The Group provides various post-retirement benefits to its active and retired employees, including pension, post-retirement medical and other benefits. The two defined benefit funds, namely the Transnet sub-fund of the Transport Pension Fund (TTPF) and the Transnet Second Defined Benefit Fund (TSDBF), are fully funded with actuarial surpluses of R1.9 billion (March 2013: R1.5 billion) and R2.9 billion (March 2013: R2.0 billion) respectively. Transnet has not recognised any portion of the surplus on these funds, as the fund rules at present do not allow for the distribution of a surplus. The post-retirement medical benefit obligation is approximately R1.3 billion (March 2013: R1.6 billion).

Transnet has settled the R70 million *ex gratia* provision made during the previous financial year to its most disadvantaged pensioners during September 2013. In particular, the payment is made to those pensioners with very low pensions despite long service. The payment is made to qualifying pensioners of both the Transnet Second Defined Benefit Fund and the Transnet Sub Fund of the Transport Pension Fund. Transnet has raised a further R129 million *ex gratia* provision for its most disadvantaged pensioners in the current period.

The Board of Trustees of the Transnet Second Defined Benefit Fund and the Transnet Sub-Fund of the Transport Pension Fund has proposed the payment of adhoc bonuses to its beneficiaries amounting to R165 million and R16,3 million respectively. These payments are to be made during December 2013, and will in turn supplement their current statutory increase.

Notes to the Financial Statements
for the period ended 30 September 2013

9. Segmental Analysis

Segmental Information
for period ended 30 September 2013

	Freight Rail R million	Rail Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments R million	Elimination of intersegment transactions R million	Other adjustments** R million	Total Transnet R million
External revenues*	17,112	671	4,519	4,386	1,533	28,221	236	—	4	**28,461**
Internal revenues	141	5,170	521	1	8	5,841	1215	(7,057)	1	**—**
Total revenue	17,253	5,841	5,040	4,387	1,541	34,062	1,451	(7,057)	5	**28,461**
Energy costs	(2,436)	(123)	(216)	(276)	(107)	(3,158)	(69)	—	(5)	**(3,232)**
Maintenance	(843)	(128)	(133)	(165)	(32)	(1,301)	(47)	989	(11)	**(370)**
Materials	(300)	(2,488)	(42)	(191)	(5)	(3,026)	35	2,139	—	**(852)**
Personnel cost	(5,194)	(2,349)	(785)	(1,514)	(145)	(9,987)	(348)	2,389	(908)	**(8854)**
Other costs	(1,453)	(380)	(270)	(856)	(70)	(3,029)	(1,041)	1,369	(417)	**(3,118)**
EBITDA	7,027	373	3,594	1,385	1,182	13,561	(19)	(171)	(1,336)	**12,035**
Depreciation and amortisation	(3,072)	(128)	(650)	(747)	(275)	(4,872)	(18)	96	(44)	**(4,838)**
Fair value adjustments, impairment of assets and post-retirement benefit obligations	97	9	386	4	3	499	20	—	(809)	**(290)**
Dividends received and income from associates	—	—	—	—	—	—	—	—	2	**2**
Finance cost	(1,189)	(169)	(727)	(230)	(120)	(2,435)	(74)	3,617	(3,983)	**(2,875)**
Finance income	11	—	2	9	3	25	47	(3,617)	3,672	**127**
Profit before taxation	2,874	85	2,605	421	793	6,778	(44)	(75)	(2,497)	**4,161**
Total assets†	84,718	11,363	66,677	18,499	29,947	211,204	4,405	(9,700)	12,091	**218,000**
Total liabilities†	48,477	7,040	37,478	9,789	17,928	120,712	754	(4,415)	11,770	**128,821**
Capital expenditure* **	7,329	385	485	621	1,847	10,667	37	(170)	661	**11,195**
EBITDA margin (per cent.)	40.7	6.4	71.3	31.6	76.7	39.8	(1.3)	n/a	n/a	**42.3**

* Revenues from segments below the quantitative thresholds are attributable to two operating segments of the Group. These segments include Transnet Property that manages internal and external lease of commercial and residential property and Transnet Capital Projects.

** Other adjustments include the Corporate Centre functions.

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

† Excludes assets and liabilities held-for-sale.

Notes to the Financial Statements
for the period ended 30 September 2013

9. Segmental Analysis (continued)

Segmental Analysis
for period ended 30 September 2012

	Freight Rail R million	Rail Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments R million	Elimination of intersegment transactions R million	Other adjustments** R million	Total Transnet R million
External revenues*	15,271	561	3,740	3,759	1,325	24,656	205	—	48	24,909
Internal revenues	499	5,652	466	1	2	6,620	1,114	(7,734)	—	—
Total revenue	15,770	6,213	4,206	3,760	1,327	31,276	1,319	(7,734)	48	24,909
Energy costs	(2,183)	(126)	(190)	(228)	(102)	(2,829)	(72)	—	(4)	(2,905)
Maintenance	(998)	(147)	(114)	(134)	(23)	(1,416)	(37)	1,046	(62)	(469)
Materials	(353)	(2,648)	(40)	(185)	(5)	(3,231)	64	1,923	(28)	(1,272)
Personnel cost	(4,970)	(2,219)	(722)	(1,351)	(140)	(9,402)	(288)	2,286	(459)	(7,863)
Other costs	(1,465)	(360)	(226)	(782)	(54)	(2,887)	(1,003)	2,020	(439)	(2,309)
EBITDA	5,801	713	2,914	1,080	1,003	11,511	(17)	(459)	(944)	10,091
Depreciation and amortisation	(3,208)	(108)	(622)	(684)	(292)	(4,914)	(20)	77	(66)	(4,923)
Fair value adjustments, impairment of assets and post-retirement benefit obligations	(52)	(3)	75	(1)	—	19	80	—	(245)	(146)
Dividends received and income from associates	—	—	—	—	—	—		—	14	14
Finance cost	(934)	(108)	(775)	(178)	(249)	(2,244)	(50)	3,258	(3,636)	(2,672)
Finance income	23	(2)	2	18	2	43	48	(3,258)	3,368	201
Profit before taxation	1,630	492	1,594	235	464	4,415	41	(382)	(1,509)	(2,565)
Total assets†	71,750	8,873	65,210	15,730	25,937	187,500	4,228	(10,978)	13,822	194,572
Total liabilities†	42,693	5,430	38,442	7,819	15,403	109,787	362	(6,389)	9,972	113,732
Capital expenditure***	8,176	438	780	516	1,256	11,166	44	(414)	2,047	12,843
EBITDA margin (per cent.)	36.8	11.5	69.3	28.7	75.6	36.8	(1.3)	n/a	n/a	40.5

* Revenues from segments below the quantitative thresholds are attributable to two operating segments of the Group. These segments include Transnet Property that manages internal and external lease of commercial and residential property and Transnet Capital Projects.

** Other adjustments include the Corporate Centre functions.

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

† Excludes assets and liabilities held-for-sale.

‡ A reconciliation between total reportable segments measure of profit or loss and the group profit or loss before taxation and discontinued operations is included on the face of the income statement.

9. Segmental Analysis (continued)

Operating segment performance

Transnet Freight Rail

The impact of the economic slowdown, rail operational and customer related issues continue to negatively impact volume performance. Accordingly, volumes for the period increased marginally by 2.4 per cent. to 105.8mt (2012: 103.3 mt). Despite slower than expected volume performance revenue for the period increased by 9.4 per cent. to R17.3 billion (2012: 15.8 billion) This is mainly attributable to price inflation adjustments and revenue yield strategies focusing on a higher yield mix.

Coal volumes were relatively flat at 41.9 mt (2012: 41.6 mt). Volume growth was negatively impacted by a series of safety incidents and a longer line shut down for maintenance purposes, compared to the prior period. Volumes started to improve considerably in the second quarter of the period as the business unit has changed its operating model via the implementation of project Shongololo, to improve operational efficiencies. Consequently average weekly tempos improved from 1.4 mt in the first quarter to 1.8 mt in the second quarter.

Iron ore and manganese volumes transported amounted to 31.4 mt (2012: 31.6 mt), being negatively impacted by operational issues at key mines and tippler problems at the ports.

Steel and cement volumes increased by 2.7 per cent. to 11.3 mt (2012: 11.0 mt), a higher year on year growth is mainly due to the higher demand from customers.

The containers and automotive volumes increased by 26.0 per cent. to 6.3 mt (2012: 5.0 mt), evidencing a continued growth in market share arising from the road-to-rail modal shift.

Mineral mining and chrome volumes increased by 11.0 per cent. to 9.1 mt compared to the prior period (2012: 8.2 mt). Growth in volumes is mainly attributable to improved operational efficiencies and is symbolic of improved customer relations and an indication of a successful road to rail strategy.

Agriculture and bulk liquid volumes transported was 5.8 mt (2012: 5.8 mt).

Net operating expenses increased by 3.0 per cent. only to R10.2 billion (2012: R9.9 billion). This was due mainly to a 7.4 per cent. increase in personnel costs (excluding training costs) driven by an average wage increase, a 7.1 per cent. increase in electricity costs, and an increase in fuel costs of 16.9 per cent. due to the increases in fuel prices. These higher than inflation increases were offset by cost reductions in other operating costs.

This resulted in an EBITDA of R7.0 billion (2012: R5.8 billion), up 21.1 per cent. from the prior period.

Transnet Engineering

Transnet Engineering's revenue decreased by 6.0 per cent. to R5.8 billion compared to the prior period. This was largely due to a reduction in internal revenue due to reduced wagon sales to Freight Rail. However, there has been strong growth in external revenue which increased by 19.6 per cent. to R671 million (2012: R561 million) mainly due to locomotive, wagon and coach sales into the African market.

Net operating costs remained constant at R5.5 billion year on year, due to cost savings as a result of reduced activity levels and focused cost-cutting initiatives targeting labour costs.

As a result of reduced internal revenue performance, Transnet Engineering achieved R372 million EBITDA, 48.0 per cent. lower than the prior period (2012: R715 million).

Transnet National Ports Authority

Revenue increased by 19.8 per cent. to R5.0 billion (2012: R4.2 billion). The increase in revenue is mainly attributable to the R1 billion export rebate programme granted in the prior period and the clawback adjustment resulting in an addition to revenue of R96 million in the current period compared to a reduction of revenue of R328 million in the prior period. There was also an increase in rent and leasing income of 16.1 per cent. to R482 million (2012: R415 million).

9. Segmental Analysis (continued)

Net operating expenses increased by 11.9 per cent. to R1.4 billion compared to the prior period. The cost increase was mainly due to an increase in personnel costs of 8.7 per cent. due to increased headcount, an increase in energy costs of 13.7 per cent. due to the electricity tariff increases and fuel price increases.

Accordingly, EBITDA has increased by 23.3 per cent. to R3.6 billion (2012: R2.9 billion).

Transnet Port Terminals

Revenue increased by 16.7 per cent. to R4.4 billion (2012: R3.8 billion) due to volume increases across most sectors of the business. Container volumes increased by 9.4 per cent. to 2,379,247 TEUs (2012: 2,174,451 TEUs). Automotive volumes decreased by 3.2 per cent. to 323,354 units (2012: 334,165 units). Bulk and break-bulk volumes increased by 4.7 per cent. to 44.6 mt (2012: 42.6 mt).

Port Terminals' primary measure of container efficiency is average moves per gross crane hour' (GCH). GCH was negatively impacted by a combination of information technology system (Navis) issues, poor weather conditions and teething problems with the new tandem lift cranes at Durban Container Terminal (DCT) Pier 2. Pier 2 delivered a GCH of 24 compared to the 29 achieved in the prior period. Durban Pier 1 recorded a GCH of 24 which is higher than the 23 recorded in the prior period. The Ngqura Container Terminal GCH decreased from 30 to 26, due to equipment constraints and Cape Town Container Terminal improved its GCH from 30 to 33. The Navis system has been stable since the beginning of June 2013 and the GCH at Pier 2 is expected to increase as the terminal improves its tandem lift capability.

Net operating expenses increased by 12.0 per cent. to R3.0 billion (2012: R2.7 billion) mainly due to increases in headcount, energy, repair and maintenance, and stevedoring expenses in response to the MDS ramp up.

Consequently, EBITDA increased by 28.2 per cent. to R1.4 billion (2012: R1.1 billion).

Transnet Pipelines

Revenue for the period has increased by 16.1 per cent. to R1.5 billion (2012: R1.3 billion). This is mainly due to the 8.53 per cent. increase in allowable revenue granted by the National Energy Regulator of South Africa (NERSA) in its 2014 Tariff Determination as well as increased volumes transported from the coast.

The decline in demand due to lower economic activity has resulted in volume performance being 1.5 per cent. below the prior period with a total of 8,269 billion litres of product being transported.

Net operating expenses increased by 10.8 per cent. compared to the prior period. This increase is mainly attributable to an electricity tariff and higher maintenance activity on the NMPP servitude.

Consequently, EBITDA has increased by 17.8 per cent. to R1.2 billion (2012: R1.0 billion).

10. Contingencies and related commitments

There were no material movements in contingencies and commitments since 31 March 2013, except for a claim amounting to R380 million in respect of alleged consequential losses incurred relating to contractual changes that took place during the course of the contract.

11. Guarantees

The sole Shareholder in Transnet SOC Ltd, namely the South African Government, has guaranteed certain borrowings of the Group amounting to R3.5 billion (2012: R3.5 billion) representing 4.3 per cent. of total borrowings of R80.7 billion.

12. Post-balance sheet events

There have been no events that have occurred after the statement of financial position date that would have a material impact on reported results.

Independent auditor's report to the Board of Directors of Transnet SOC Ltd

Report on the consolidated annual financial statements

Introduction

We have audited the accompanying consolidated annual financial statements of Transnet SOC Ltd and its subsidiaries, which comprise the consolidated statements of financial position as at 31 March 2013, the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

The accounting authority's responsibility for the consolidated annual financial statements

The Board of Directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the financial position of Transnet SOC Ltd and its subsidiaries as at 31 March 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

SizweNtsalubaGobodo

SizweNtsalubaGobodo Inc.

Per Collins Mashishi
Director
11 July 2013

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INDEPENDENT AUDITORS REPORT TO THE BOARD OF DIRECTORS OF TRANSNET SOC LTD

We have audited the accompanying consolidated financial statements of Transnet SOC Ltd and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 March 2012 and 2011, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of recognised income and expenses, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 March 2012 and 2011, and the results of the Group's operations and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte + Touche

Deloitte & Touche
Per: T Marriday
Partner
14 August 2013

Consolidated statement of financial position
for the 3 years ended 31 March 2013

		As at 31 March		
	Notes	**2013 R million**	**2012 R million**	**2011 R million**
ASSETS				
Non-current assets				
Property, plant and equipment	16	**176,921**	155,953	137,836
Investment properties	17	**7,938**	7,732	7,368
Intangible assets	18	**534**	586	464
Investments in associates and joint ventures	19	**93**	72	81
Derivative financial instruments	21	**3,821**	467	15
Long-term loans and advances	22	**4**	2	11
Other investments and long-term financial assets	20	**671**	568	468
		189,982	165,380	146,243
Current assets				
Inventories	23	**3,400**	2,591	2,257
Trade and other receivables	24	**6,248**	5,615	5,503
Current taxation asset		**—**	209	303
Derivative financial instruments	21	**34**	35	30
Other short-term investments	20	**1,359**	2,755	1,566
Cash and cash equivalents	25	**2,598**	1,189	10,876
Assets classified as held-for-sale	29	**275**	231	292
		13,914	12,625	20,827
Total assets		**203,896**	178,005	167,070
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital	30	**12,661**	12,661	12,661
Reserves		**72,293**	66,760	61,005
Attributable to the equity holder		**84,954**	79,421	73,666
Non-current liabilities				
Employee benefits	31	**3,117**	3,322	3,232
Long-term borrowings	26	**66,770**	52,566	50,452
Derivative financial instruments	21	**62**	82	558
Long-term provisions	32	**1,902**	1,626	1,174
Deferred taxation liabilities	15	**20,471**	18,050	15,415
Other non-current financial liabilities	20	**6,221**	4,200	1,829
		98,543	79,846	72,660
Current liabilities				
Trade payables and accrual	27	**11,884**	11,151	9,733
Short-term borrowings	26	**6,318**	5,566	9,578
Current taxation liability		**56**	—	—
Derivative financial instruments	21	**23**	62	92
Short-term provisions	32	**991**	934	672
Other non-current financial liabilities	20	**1,127**	1,025	660
Liabilities directly associated with assets classified as held-for-sale	29	**—**	—	9
		20,399	18,738	20,744
Total equity and liabilities		**203,896**	178,005	167,070

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated income statements
for the 3 years ended 31 March 2013

	Notes	2013 R million	2012 R million	2011 R million
		For the year ended 31 March		
Continuing operations				
Revenue	6	**50,194**	45,900	37,952
Net operating expenses excluding depreciation and amortisation	8	**(29,143)**	(27,018)	(22,189)
Profit from operations before depreciation, amortisation and items listed below		**21,051**	18,882	15,763
Depreciation, derecognition and amortisation	9	**(9,277)**	(8,355)	(7,184)
Profit from operations before the items listed below		**11,774**	10,527	8,579
Impairment of assets	13	**(588)**	(342)	(537)
Post-retirement benefit obligation income	12	**28**	31	(155)
Fair value adjustments	10	**222**	(202)	625
Profit before income from associates and joint ventures and net finance costs		**11,436**	10,014	8,512
Income/(loss) from associates and joint ventures	19	**24**	(6)	58
Finance costs	14	**(5,545)**	(4,255)	(3,439)
Finance income	7	**405**	488	561
Profit before taxation		**6,320**	6,241	5,692
Taxation	15	**(1,980)**	(2,122)	(1,508)
Profit for the year after tax from continuing operations		**4,340**	4,119	4,184
Discontinued operations				
Losses from discontinued operations, including reversal of impairments and (impairments)	11	**—**	—	(71)
Profit for the year		**4,340**	4,119	4,113

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the 3 years ended 31 March 2013

	For the year ended 31 March		
	2013 **R million**	**2012** **R million**	**2011** **R million**
Profit for the year	**4,340**	4,119	4,113
Other comprehensive income			
Gains on revaluations	**1,680**	2,899	8,690
Actuarial loss on post-retirement benefit obligations	**(307)**	(501)	(204)
Exchange differences on translation of foreign operations	**(25)**	1	(6)
Gain/(loss) on cash flow hedges	**329**	(61)	65
Other comprehensive income	**1,677**	2,338	8,545
Tax relating to components of other comprehensive income	**(484)**	(702)	(2,339)
Other comprehensive income for the year, net of taxation	**1,193**	1,636	6,206
Total comprehensive income for the year	**5,533**	5,755	10,319

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of recognised income and expenses
for the 3 years ended 31 March 2013

	For the year ended 31 March		
	2013 R million	**2012 R million**	**2011 R million**
Gains on revaluations			
Gain on revaluation of pipeline networks	**423**	166	310
Gain on revaluation of port facilities	**1,325**	2,730	8,210
Decommissioning restoration liability adjustment	**(93)**	(25)	(12)
Net gain on revaluation of land, buildings and structures	**9**	71	264
Gain/(loss) on revaluation of other investments	**16**	(43)	(82)
Total gains on revaluations before taxation(1)	**1,680**	2,899	8,690
Taxation effect of revalued items	**(478)**	(857)	(2,378)
Net gains on revaluation reserve	**1,202**	2,042	6,312
Gain/(loss) on cash flow hedges	**329**	(61)	65
Taxation effect of cash flow hedge (gain)/loss	**(92)**	17	(18)
Net gain/(losses) on cash flow hedging reserve	**237**	(44)	47
Net movement on foreign currency translation reserve	**(25)**	1	(6)
Actuarial loss related to post-retirement benefit obligations			
– Actuarial loss on the Transport Pension Fund : Transnet Sub-Fund	**(170)**	(220)	(190)
– Actuarial loss on the Transnet Second Defined Pension Fund	**(101)**	(147)	(7)
– Actuarial (loss)/gain on the Transnet Top Management Pension Fund	**(8)**	(9)	1
– Actuarial loss on the Transnet Workmen's Compensation Act Pensioners Fund	**(62)**	(72)	(22)
– Actuarial gain/(loss) on the Transnet SATS Pensioners post-retirement medical benefits	**(41)**	(49)	4
– Actuarial gain/(loss) on the Transnet employees medical benefits	**75**	(4)	10
	(307)	(501)	(204)
Taxation effect of net actuarial loss	**86**	138	57
Net actuarial loss on post-retirement benefit obligations	**(221)**	(363)	(147)
	1,193	1,636	6,206
Other comprehensive income for the year	**4,340**	4,119	4,113
Profit for the year			
Total comprehensive income for the year	**5,533**	5,755	10,319

(1) Includes a net transfer to/(from) retained earnings of R nil (2012: R31 million transfer to retained earnings; 2011: R84 million transfer to retained earnings).

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the 3 years ended 31 March 2013

	Issued capital R million	Revaluation reserve R million	Foreign currency translation reserve R million	Actuarial gains and losses R million	Cash flow hedging reserve R million	Other reserve R million	Retained earnings R million	Total R million
Balances at 31 March 2010	12,661	22,319	25	2,495	(79)	249	25,677	**63,347**
Other comprehensive income for the year	—	6,312	(6)	(147)	47	—	4,113	**10,319**
Transfer from retained earnings	—	(84)	—	—	—	—	84	**—**
Balances at 31 March 2011	12,661	28,547	19	2,348	(32)	249	29,874	**73,666**
Profit for the year	—	—	—	—	—	—	4,119	**4,119**
Other comprehensive income for the year	—	2,042	1	(363)	(44)	—	—	**1,636**
Transfer to retained earnings	—	(31)	—	—	—	—	31	**—**
Gross transfers	—	(38)	—	—	—	—	38	**—**
Taxation effect relating to transfers	—	7	—	—	—	—	(7)	**—**
Balances at 31 March 2012	12,661	30,558	20	1,985	(76)	249	34,024	**79,421**
Profit for the year	—	—	—	—	—	—	4,340	**4,340**
Other comprehensive income for the year	—	1,202	(25)	(221)	237	—	—	**1,193**
Balances at 31 March 2013	12,661	31,760	(5)	1,764	161	249	38,364	**84,954**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statements of cash flows
for the 3 years ended 31 March 2013

	2013 R million	2012 R million	2011 R million
Cash generated from operations (refer note 37)	**22,599**	20,616	16,159
Changes in working capital (refer note 37)	**(1,273)**	781	792
Deferred income (levy)	**1,315**	1,315	1,315
Cash generated from operations after working capital changes	**22,641**	22,712	18,266
Finance costs	**(5,328)**	(4,233)	(3,428)
Finance income	**322**	407	466
Taxation paid	**222**	(95)	(1,379)
Settlement of post-retirement benefit obligations	**(253)**	(270)	(268)
Derivatives settled and raised	**(828)**	(611)	(498)
Cash flows from operating activities	**16,776**	17,910	13,159
Replacements to property, plant and equipment	**(16,238)**	(10,331)	(10,101)
Expansions—property, plant and equipment	**(10,033)**	(11,585)	(11,292)
Additions to intangible assets	**(108)**	(88)	(21)
Borrowing costs capitalised	**(1,053)**	(1,645)	(1,760)
Proceeds on the disposal of investment property	**2**	92	8
Proceeds on the disposal of property, plant and equipment	**12**	105	301
Net proceeds on the disposal of subsidiaries	**—**	—	1
Dividend income	**—**	—	1
Net receipts /(advances) of long-term loans and advances	**1**	(1)	(3)
Net decrease/(increase) in other investments	**176**	(1,208)	(152)
Cash flows utilised in investing activities	**(27,241)**	(24,661)	(23,018)
Borrowings raised	**19,800**	11,110	18,418
Borrowings repaid	**(7,926)**	(14,046)	(5,627)
Cash flows from financing activities	**11,874**	(2,936)	12,791
Net increase/(decrease) in cash and cash equivalents	**1,409**	(9,687)	2,932
Cash and cash equivalents at the beginning of the year	**1,189**	10,876	7,944
Total cash and cash equivalents at the end of the year	**2,598**	1,189	10,876

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the 3 years ended 31 March 2013

1. General information

Transnet state owned company Limited ("Transnet" or "Transnet SOC Ltd" or the "Company") is a company domiciled in South Africa.

The consolidated financial statements for the three years ended 31 March 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures. The financial statements were authorised by the Board on 29 May2013.

Transnet is a public company and was incorporated by the Government under the Companies Act on 1 April 1990, pursuant to the Legal Succession Act, with the Government as its sole Shareholder. Transnet was formed in 1990 as a result of the transfer of the commercial enterprise of the South African Transport Services to Transnet as the country's railway, harbour and pipeline operator. With effect from 1 May 2011, Transnet changed its name from Transnet Limited to Transnet SOC Ltd. See "*Recent Developments*".

Transnet is the operator, owner and custodian of a major portion of the Republic of South Africa's transport infrastructure. Transnet is a focused freight transport company with a goal of delivering integrated, efficient, safe, reliable and cost-effective services. Transnet's key mandate, as defined by its Shareholder Compact, is to assist in lowering the cost of doing business, enabling economic growth in the Republic of South Africa and ensuring security of supply through providing appropriate port, rail and pipeline infrastructure in a cost effective manner. Transnet seeks to promote economic growth in the Republic of South Africa by providing its customers with access to world-class integrated logistics solutions and by creating transport capacity ahead of demand. Transnet's strategic focus areas are informed by the NGP and the SSI governmental initiatives issued by the Minister of Public Enterprises.

Transnet is funded through reserves and borrowings and does not receive cash subsidies from the Government. Transnet's borrowings are based on the strength of its own financial position. Transnet has raised its funding without Government guarantees since 2005 and the Notes under the Programme are not guaranteed by the Government. As a result, Transnet is required to earn an appropriate return on its assets that will allow for the maintenance and expansion of the rail, port and pipeline infrastructure that it owns and operates, while maintaining a strong financial position.

Substantially all of Transnet's revenues are generated in the Republic of South Africa. Over the past seven financial years, Transnet has transformed from a diversified conglomerate into a focused rail, port and pipeline operator. Transnet has accomplished this through the sale, closure or transfer of non-core assets and businesses, which have been treated as discontinued operations for accounting purposes under IFRS. Transnet's continuing operations are grouped into five divisions according to major transport modes, with central support services unified under one brand. For operational IFRS reporting purposes, Transnet is organised into the following five core business divisions: Transnet Freight Rail, Transnet Engineering, Transnet National Ports Authority, Transnet Port Terminals, and Transnet Pipelines. The "Other" segment includes Transnet Property, Transnet Capital Projects, Transnet Corporate Centre, and Transnet Foundation.

Transnet Freight Rail is focused on transporting bulk and containerised freight. Transnet Freight Rail transported approximately 207.7 million tonnes of freight during Financial Year 2013. Transnet Freight Rail's strategic advantage lies in the movement of heavy haul and bulk commodities over long distances, where flow densities provide economies of scale thereby lowering unit cost.

Transnet Engineering's internal structure comprises nine businesses, namely wagon, locomotive, coach, rolling stock equipment, rotating machines, wheels, auxiliary, foundry and port equipment maintenance. The port equipment maintenance business is a newly established business unit. Most of Transnet Engineering's sales are generated from sales to Transnet Freight Rail and PRASA (a separate state owned company responsible for passenger rail transport, and a related party for accounting purposes under IFRS).

Transnet National Ports Authority operates as a landlord port authority, which manages, controls and administers the South African port system on behalf of the State. Transnet National Ports Authority is also a provider of port infrastructure and marine services at all eight commercial ports in the Republic of South Africa.

Transnet Port Terminals manages sixteen cargo terminals situated across seven of the eight South African ports. It provides cargo handling services for container, bulk, break-bulk and automotive cargos.

1. General information (continued)

Transnet Pipelines, established in 1965, owns and operates South Africa's 3,800 kilometres of strategic petroleum and gas pipeline infrastructure, traversing five provinces with the strategic objective of ensuring security of supply of petroleum products to the inland market.

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations of those standards issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable legislation.

3. Basis of preparation

The consolidated financial statements of the Group ('financial statements') are presented in South African Rand, rounded to the nearest million. The financial statements are prepared on the historical cost basis, except for the following assets and liabilities that are stated at fair value: unlisted investments, derivative financial instruments, financial instruments held at fair value through profit or loss, financial instruments classified as available-for-sale and investment properties. Certain classes of property, plant and equipment are carried at revalued amounts.

The financial statements are prepared on the going concern basis.

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

4. Summary of significant accounting policies

Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added-tax, returns, rebates and discounts and after eliminating inter-group transactions.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specific circumstances of each arrangement.

Where extended payment terms are granted by the Group, whether explicitly or implicitly, the effect of the time value of money is taken into account in the measurement of revenue irrespective of other factors such as the cash selling prices of the goods.

Rail Transportation services

Revenue from rail freight and related services is recognised in profit or loss when the service is rendered by reference to the stage of completion of transactions as freight moves from one point of origin to destination.

Rental income

Revenue arising from the rental of property is recognised in profit or loss on a straight-line basis over the term of the lease in accordance with the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total rental income.

Engineering contracts revenue

Revenue arising from engineering contract, including maintenance services is recognised when the outcome of the contract can be measured reliably by reference to the stage of completion of the contractual activity. Contract

4. Summary of significant accounting policies (continued)

revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments receivable less penalties incurred to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred in the period that are likely to be recoverable. An expected loss on a contract is recognised immediately in the profit and loss.

Ports revenue

Port infrastructure and related services

Ports revenue comprise port dues, light dues, vessel traffic services, berthing services, towage and pilotage and similar services related to the provision of port infrastructure and facilities to clients. The revenue is recognised in the period in which the service is rendered in accordance with the tariff schedule.

Port operations

Port operating revenue comprises freight handling, storage and other services related to the handling and processing of cargo through port terminals. The revenue is recognised when the service is rendered.

Pipeline revenue

Revenue from the transportation of petroleum and gas products is recognised at the point of delivery in the period the service is rendered based on the contractual terms and the related volumes transported. Revenue from the storage and handling of petroleum products is recognised when services are rendered over the period of the contract.

Revenue claw back adjustment

Two of the Group's operating divisions, namely Transnet National Ports Authority and Transnet Pipelines are regulated entities subject to the authority of the Ports Regulator of South Africa and National Energy Regulator of South Africa respectively. Both regulators apply the required revenue approach and the claw back mechanism in setting future revenues and tariffs. The timing of recognition of certain revenues in these rate-regulated activities reflects the economic impact of the regulators' decisions regarding future revenues and tariffs arising from the application of the claw back mechanism.

The Group adjusts its revenue from ports infrastructure and related services and pipelines to reflect the under or over-recovery of revenue in the current period that is expected to be recovered or clawed back by the regulators in setting tariffs for future periods. The Group recognises a liability for amounts accrued in the current and prior periods in excess of the allowed revenue set by the regulator, less allowable expenses incurred in generating the excess revenue. The liability is subsequently released to revenue in the periods in which the regulator claws back the amounts through tariff adjustments. The adjustment to revenue is not discounted.

The net effect of over and under-recovery is disclosed as other liabilities in the statement of financial position.

Rental income

Revenue arising from the rental of property is recognised in profit or loss on a straight-line basis over the term of the lease in accordance with the substance of the relevant agreements. Lease incentives granted are recognised as an integral part of the total rental income.

Dividend income

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

4. Summary of significant accounting policies (continued)

Finance income

Finance income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all suspensive conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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

Transactions giving rise to adjustments to revenue/purchases

The Group accounts for cash discounts and rebates received (given) as follows:

- In the case of the Group as a seller, cash discounts and rebates given are estimated upfront and deducted from the amount of revenue recognised; and
- In the case of the Group as a purchaser, cash discounts and rebates received are estimated upfront and deducted from the cost of inventories purchased.

Taxation

Income taxation on the profit or loss for the period comprises current and deferred taxation. Income taxation is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

The taxation effect of transactions with shareholders in their capacity as shareholders, including transactions with non-controlling interests, are recognised directly in equity and presented in the statement of comprehensive income.

Current taxation

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

Deferred taxation

Deferred taxation is provided using the statement of financial position method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation bases. The following temporary differences are not provided for:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities (other than in a business combination), which affect neither accounting nor taxable profit or loss; and
- differences relating to investments in subsidiaries, associates and joint ventures to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is calculated using the taxation rates that have been enacted or

4. Summary of significant accounting policies (continued)

substantively enacted at the reporting date. Deferred taxation is charged or credited in the income statement, except where it relates to items charged or credited to other comprehensive income or recognised directly in equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available to be utilised against the associated unused taxation losses and deductible temporary differences. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future.

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

In terms of the measurement criteria set out in IAS 12 Income Taxes, the Group has assessed its intention at the reporting date on recovering an asset or liability to the extent that this intention influences the rate of taxation to be applied in calculating deferred taxation. In this regard, the Group has recognised deferred taxation as follows:

Land

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

Asset in respect of which no taxation allowances are granted

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

Asset (other than land) carried at cost

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

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

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

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

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

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

Where the intention is to recover the benefits of the asset through both use and sale, deferred taxation is calculated to reflect this intention. Deferred taxation is calculated at the usage rate on the difference between the

4. Summary of significant accounting policies (continued)

taxation base and the original cost, at the CGT rate on the difference between the CGT base cost and the future selling price (residual value), and at the usage rate on the difference between the future selling price and revalued carrying amount.

Investment property (other than land) carried at fair value

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

Dividends taxation

Dividends Tax is levied at a rate of 15 per cent. on dividends paid to a shareholder. The tax is levied on the date of a dividend payment, which is deemed to be the date on which the dividend accrues to the shareholder. Dividend Tax is withheld by the company paying the dividend. An exemption from Dividends Tax is provided for, *inter alia*, where the beneficial owner is the Government.

Basis of consolidation

Subsidiaries

Subsidiaries (including special purpose entities, such as trusts) are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Typically, this will be where the Group has more than 50 per cent. of the voting power. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The consolidated financial statements include the results of the Company and its subsidiaries, from the effective dates of acquisition to the effective dates of disposal.

The acquisition method of accounting in accordance with IFRS 3 *Business Combinations* is applied in accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the sum of:

- The fair value of the assets given up;
- Equity instruments issued and liabilities incurred or assumed at the acquisition date;
- The amount of any non-controlling interest in the acquisition; and
- For business combinations achieved in stages, the acquisition date fair value of the previously held interest in the acquiree.

Acquisition related costs such as advisory, legal and accounting fees are recognised in profit or loss in the period in which they are incurred and the services received.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-current assets acquired in a business combination that are classified as held-for-sale are measured in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* at the lower of carrying value and fair value less costs to sell. The excess of the cost of acquisition over the fair value of the Group's share in the net identifiable assets acquired and liabilities assumed is recognised as goodwill and accounted for in terms of the accounting policy on intangible assets and goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement as a gain from a bargain purchase transaction. The interest of the non-controlling shareholders is stated at their proportion of the fair value of the assets, liabilities and contingent liabilities recognised.

4. Summary of significant accounting policies (continued)

When the Group acquires a business, it assesses the identifiable assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the Group.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39: Financial Instruments: Recognition and Measurement either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Losses incurred by a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Where there is a change in the interest in a subsidiary that does not result in a loss of control, the difference between the fair value of the consideration transferred or received and the amount by which the non-controlling interest is adjusted is recognised as an equity transaction directly in the statement of changes in equity.

Where there is a change in the interest in a subsidiary that results in loss of control, the Group:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Reclassifies any cumulative exchange differences previously recognised in equity to profit or loss;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment interest retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that it is controlled by the Group.

Inter-company transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group. Investments in subsidiaries are carried at cost less any accumulated impairment losses in the Company financial statements.

Equity accounted investments

Equity accounted investments comprise the Group's interests in associates and joint ventures. The investments are carried in the statement of financial position at cost, including goodwill, plus the Group's share of post-acquisition reserves less any accumulated impairment losses.

Equity accounted income represents the Group's proportionate share of the post-acquisition profits of the investee and the taxation thereon, net of the Group's proportionate share of inter-group profits. Losses incurred by associates or joint ventures (including impairment losses) are recognised in the consolidated financial statements until the investment is written down to a nominal value. Thereafter, losses are accounted for only to the extent that the Group is committed to providing financial support to the investee. The carrying amount of the investments is reduced to recognise any decline in value.

4. Summary of significant accounting policies (continued)

Any excess of the cost of acquisition over the fair value of the Group's interest in the joint venture or associate's net assets is recognised as goodwill and is included in the carrying value of the investment. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised immediately in profit or loss.

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

Investments in associates

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

Investments in associates are equity accounted in the consolidated financial statements for the period in which the Group exercises significant influence, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Long-term loans to associates, which are part of the long-term investment, are treated as a part of the investment in the associates.

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (ie when strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture agreements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities using the equity method except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*.

Foreign currency

Functional and presentation currencies

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are prepared in South African Rand, which is the Company's functional currency and the Group presentation currency.

Foreign currency transactions

Transactions in currencies other than the Group's functional currency are defined as foreign currency transactions. Transactions in foreign currencies are translated into the functional currency at exchange rates ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rates ruling at the original transaction date. Non-monetary assets and liabilities that are carried at fair value denominated in the foreign currency are translated into the functional currency at the exchange rate ruling when the fair value was determined.

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

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

4. Summary of significant accounting policies (continued)

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below under "Derivative financial instruments and hedge accounting"); and
- Exchange differences on monetary items receivable from or payable to a foreign operating entity for which settlement is neither planned nor likely to occur, which form part of the net investment in the foreign operation and are initially recognised in the foreign currency translation reserve and subsequently recognised in profit or loss on disposal of the net investment.

Financial statements of foreign entities

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

- Assets and liabilities, at rates of foreign exchange ruling at the reporting date;
- Income and expenses at rates approximating the foreign exchange rates ruling at the dates of the transactions or appropriate average rates; and
- Equity at historical rates.

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of related hedges where hedge accounting is applied are recognised in other comprehensive income and presented as a separate component of equity.

On disposal, such translation differences are recognised in profit or loss as part of the gain or loss on disposal.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and selling. Cost is determined as follows:

- Raw materials and consumable stores are stated at weighted average cost; and
- Manufactured goods and work in progress are stated at weighted average cost valued at raw material cost plus direct labour cost and an appropriate portion of related manufacturing overhead cost, based on normal capacity.

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

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

Property, plant and equipment

Property, plant and equipment is stated at cost, or revalued amount, less accumulated depreciation where appropriate and any accumulated impairment losses.

Recognition and measurement

Port operating assets, pipeline networks and port infrastructure assets are carried at revalued amounts. Formal revaluations are performed every three years by independent experts applying internationally acceptable and appropriately benchmarked valuation techniques such as depreciation optimised replacement cost and modern equivalent asset valuation methods dependent on the asset class being revalued. Appropriate indices are applied in the intervening periods to ensure that the assets are carried at fair value at the reporting date.

4. Summary of significant accounting policies (continued)

Revaluation surpluses that arise are recognised in other comprehensive income and are accumulated in the revaluation reserve in equity, except to the extent that they reverse a revaluation decrease for the same asset previously recognised in the income statement, in which case the surplus is credited to the income statement to the extent of the decrease previously recognised. A decrease in the carrying amount arising on the revaluation of an asset is recognised as an expense in the income statement to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus included in the revaluation reserve is transferred to retained earnings.

Cost includes expenditure that is directly attributable to the acquisition of the asset, borrowing costs capitalised to qualifying assets (see borrowing costs) and adjustments in respect of hedge accounting where applicable.

Assets under construction, including capital work in progress, are stated at cost less any accumulated impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, qualifying borrowing costs, any adjustments in respect of hedge accounting and an appropriate proportion of production overheads.

Where components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated separately over their respective useful lives.

Major spare parts, stand-by and servicing equipment held by the Group are classified as property, plant and equipment if they are expected to be used for more than one period. If not, they are classified as inventory. Similarly major spare parts and servicing equipment that can be used only in connection with a specific item of property, plant or equipment are accounted for as property, plant and equipment.

Subsequent costs

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

Costs of major repairs and overhauls of those units are capitalised as separate components if the recognition criteria are met.

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Land and assets in the course of construction are not depreciated. All other property, plant and equipment, including capitalised leased assets, are depreciated on a straight-line basis over their estimated useful lives or the term of the lease, if shorter. Major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, whichever is shorter. Depreciation commences when the asset is available for use.

4. Summary of significant accounting policies (continued)

Assets are depreciated over the following periods:

Rate per annum	**Years**
Buildings and structures	10 – 50
Buildings and structures components	5 – 25
Permanent way and works	3 – 95
Aircraft including components	8 – 15
Pipelines including network components	6 – 75
Port infrastructure	12 – 100
Floating craft including components	5 – 40
Port operating equipment including components	3 – 40
Rolling stock	30 – 60
Rolling stock components	25 – 60
Containers	10 – 20
Motor vehicles	3 – 15
Machinery, equipment and furniture	3 – 50

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

Items of property, plant and equipment are derecognised when they are either disposed of or when no further economic benefits are expected to flow from their use or disposal. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to either earn rentals and/or for capital appreciation (including properties under construction for such purposes) and are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains and losses arising from changes in the fair value of investment properties are recognised in profit or loss in the period in which they arise. Rental income from investment properties is accounted for as described under the Revenue accounting policy.

Where an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is treated in the same way as a revaluation under IAS 16 *Property, Plant and Equipment* and is recognised in other comprehensive income if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising from the transfer is recognised immediately in profit or loss unless it is a reversal of a previous revaluation surplus in which case the loss is recognised in other comprehensive income and reduces the existing revaluation surplus.

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

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

The Group's intention in respect of back of port properties is for the Group to hold these properties strategically for future development. Until the future strategic purpose of these properties is formalised through the relevant governance structures, they shall be held for capital appreciation.

4. Summary of significant accounting policies (continued)

The Group has areas where multiple buildings are on a single erf or multiple erfs defined as one area called a precinct. Certain buildings may be owner occupied and others rented to third parties or vacant. For classification purposes, a precinct, station or intermodal hub is assessed in its entirety and is classified as investment property if the relevant criteria above are met.

For valuation purposes the external rentals within the precinct, station or intermodal hub as well as for back of port properties are used as the basis to determine the fair value of these properties using the normalised income method of valuation which entails the capitalisation of the normalised net annual income from the property.

Properties which were acquired for administrative purposes but are currently vacant or occupied by a third party tenant with a long term lease in excess of five years are classified as investment property even though there may be no plans to dispose of the assets. If the lease term is less than five years, the asset is not classified as investment property. If the criteria in IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations are met, the asset is classified under Non-current Assets Held-for-Sale.

Intangible assets and goodwill

Software and licences

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

Costs associated with researching or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable software products controlled by the Group that will probably generate economic benefits beyond one year and for which the costs can be measured reliably, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Costs relating to the acquisition of licences are capitalised and amortised on a straight-line basis over the licence period when available for use.

Research and development

Research costs, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognised in the income statement in the period in which they are incurred. Development costs, arising from the application of the research findings to a plan or design for the production of new or substantially improved products and processes are recognised as an asset if, and only if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use it or sell it;
- Its ability to use or sell the intangible asset;
  (i) How the intangible asset will generate probable future economic benefits;
  (ii) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
  (iii) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate portion of overheads.

Prefeasibility and feasibility study expenses are classified and accounted for as either research or development costs in accordance with the above criteria.

Capitalised development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Development assets that have finite useful lives are amortised on a straight-line basis over their useful lives. Development assets with indefinite useful lives are not amortised, but are tested for impairment at each reporting date.

4. Summary of significant accounting policies (continued)

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation and impairment

Intangible assets with an indefinite useful life and intangible assets not yet available for use are not amortised but are tested for impairment at each reporting date. Intangible assets with a finite useful life are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The estimated useful lives for the current and comparative periods are as follows:

Software – 5 years; and
Licences – term of the licence.

Goodwill

Goodwill that arises on the acquisition of interests in subsidiaries, joint ventures and associates is initially measured at cost, being the excess of the cost of the acquisition over the net fair value of the Group's share in the identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is tested for impairment annually as well as when there is an indication of impairment. For the purpose of impairment testing goodwill is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are allocated to those units (refer "Impairment of non financial assets"). Any impairment losses recognised are not subsequently reversed.

Goodwill arising on acquisition of interests in joint ventures and associates is included within the carrying amount of the investment and is not tested separately for impairment on an annual basis (ie it is assessed for impairment as part of the investment in associate or joint venture where indicators of impairment exist). Goodwill arising on the acquisition of subsidiaries is presented separately on the statement of financial position.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Gain from a bargain purchase transaction

A gain from a bargain purchase transaction represents the excess of the net fair value of the Group's share in the identifiable assets acquired and liabilities assumed over the cost of the acquisition.

The gain is recognised immediately in profit or loss, but only after a reassessment of whether all assets and liabilities of the acquiree have been identified and the fair values of all the assets acquired, liabilities assumed and the consideration given up.

Impairment of non-financial assets

The carrying amounts of the Group's tangible and intangible assets, other than investment property, non-current assets held-for-sale, inventories and deferred taxation assets are reviewed at each reporting date to determine

4. Summary of significant accounting policies (continued)

whether there is any indication of impairment. If such an indication exists, the recoverable amount of the individual asset is estimated to determine the extent of the impairment loss (if any). Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The Group considers its five operating segments or divisions per the segmental report as separate cash generating units for the purposes of impairment testing.

Goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of the balance in the revaluation reserve relating to that asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then to reduce the carrying amount of the other assets in the cash-generating unit (group of units) on a pro-rata basis.

Calculation of recoverable amount

The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use. Fair value less costs to sell is determined by ascertaining the current market value of the asset and deducting any costs relating to the realisation of the asset. In assessing the value-in-use, the expected future cash flows from the asset are discounted to their net present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (and the business unit to which that asset belongs) for which the future cash flows have not been adjusted. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill, whether recognised at an interim reporting date or at year-end, is not reversed in subsequent periods.

In respect of other assets, a previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates previously used to determine the recoverable amount, to an amount not higher than the carrying amount that would have resulted, net of depreciation or amortisation had no impairment loss been recognised. A reversal of an impairment loss is recognised immediately in profit or loss, 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.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, amortisation of discounts on bonds and foreign exchange gains and losses, less amounts capitalised to qualifying assets.

Capitalised borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset, until such time that the asset is substantially ready for its intended use.

The Group identifies a qualifying asset as one that necessarily takes six months or more to get ready for its intended use. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group capitalises the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of the borrowed funds.

4. Summary of significant accounting policies (continued)

To the extent that a qualifying asset is funded via general borrowings, the Group determines borrowing costs eligible for capitalisation by applying the weighted average cost of borrowings for the period, other than borrowings made specifically for the purpose of obtaining qualifying assets, to the expenditures on that asset.

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

Non-current assets classified as held-for-sale and discontinued operations

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and the fair value less costs to sell.

Impairment losses on initial classification as held-for-sale are recognised in profit or loss, even where the assets were carried at revalued amounts. The same applies to gains and losses on subsequent measurement. A gain or subsequent increase in fair value less costs to sell may not exceed the cumulative impairment losses previously recognised in terms of IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations or IAS 36 Impairment of Assets.

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

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. A disposal group that is to be abandoned may also qualify as a discontinued operation.

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

Employee benefits

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

Defined contribution fund

The Group's contributions to the defined contribution fund are recognised in the income statement in the period to which they relate.

Defined benefit funds

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in the income statement. All actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

4. Summary of significant accounting policies (continued)

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by the employees is recognised as an expense in the income statement on a straight- line basis over the average period until the benefit becomes vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit or loss.

The post-retirement benefit obligation recognised on the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised past service cost plus the present value of available refunds and reductions in the future contributions to the plan.

Post-retirement medical benefits

Post-retirement medical benefits are provided by the Group to qualifying employees and pensioners. The medical benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Actuarial gains or losses are recognised in line with the policy described above.

Short- and long-term benefits

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

The Group's net obligation in respect of long-term service benefits, other than pension plans and post-retirement medical benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods.

Termination benefits

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

Leases

Group as a lessee

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leased assets and the related liabilities recognised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are recognised in other long-term payables.

The interest element of the finance lease payment is recognised in the income statement or capitalised to qualifying assets over the lease period if the relevant criteria are met. Any contingent rentals are charged as expenses in the period in which they are incurred. Property, plant and equipment acquired under a finance lease are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, (including contracts with fixed escalation clauses), are charged to the income statement on a straight-line basis over the period of the lease.

The Group capitalises all leasehold improvements and depreciates them over their useful life or the remaining period of the lease (if shorter).

4. Summary of significant accounting policies (continued)

Group as a lessor

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

Assets leased to third parties under operating leases are included under property, plant and equipment (or investment property where applicable) in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to the lessee) is recognised on a straight-line basis over the lease term.

Sale and leaseback

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

Where a sale and leaseback agreement is classified as an operating lease and the transaction took place at fair value, any excess or deficit of the sale proceeds over the carrying values of the assets sold is recognised in the income statement in the year in which it arises. If the deficit is compensated for by future lease payments at below market price, the deficit is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

Determining whether an arrangement contains a lease

The Group ensures that the following two requirements are met, in order for an arrangement transacted by the Group to be classified as a lease in terms of IAS 17 *Leases*:

- The fulfilment of the arrangement is dependent on the use of a specific asset or assets (whether explicitly or implicitly stated in the contract); and
- The arrangement conveys the right to use the asset(s); ie the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. This will be the case if any one of the following conditions are met:
  - (i) The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset;
  - (ii) The purchaser has the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset; and
  - (iii) There is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output or other utility of the asset and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit at the time of delivery.

The Group's assessment of whether an arrangement contains a lease is made at the inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances as specified by IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of taxation, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are recognised in profit or loss in the period in which they are incurred.

4. Summary of significant accounting policies (continued)

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity. Repurchased shares are classified as treasury shares and presented as a deduction from the total equity until they are cancelled, reissued or disposed of.

Dividends are recognised as a liability in the period in which they are declared.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-taxation rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring

A provision for restructuring costs is recognised when the Group has a detailed formal plan for the restructuring and the Group has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Restructuring provisions only include those direct expenditures which are necessarily entailed by the restructuring and not associated with the ongoing activities of the Group. Future operating costs are not provided for.

Decommissioning and environmental obligations

Decommissioning liabilities

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

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

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

The effect of subsequent changes to assumptions in estimating an obligation for which the provision was recognised as part of the cost of the asset is adjusted against the asset. Any subsequent changes to an obligation which did not relate to the initial acquisition or construction of a related asset are charged to the income statement.

4. Summary of significant accounting policies (continued)

Environmental liabilities

In accordance with the Group's environmental policy and applicable legal requirements, a provision for environmental rehabilitation in respect of clean-up costs is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount of the obligation.

The Group's environmental obligations arise from legislation which requires the Group to remove waste material and remediate land contaminated by asbestos, ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese), fuel and rubble. A number of factors are considered in determining the amount of the obligation, including:

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

The above estimates are reviewed at least annually and the effect of subsequent changes thereto is recognised prospectively in the income statement as a change in accounting estimate.

Onerous contracts

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

Other provisions

Other provisions, for example, third-party claims, freight insurance, customer claims and leave pay provisions are recognised when they meet the recognition requirements as per IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Contingent liabilities

Contingent liabilities are (a) possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control, or (b) present obligations that arise from past events and it is either not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless the probability of occurrence is remote.

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of the debt instrument. The Group recognises financial guarantee contracts initially at fair value. Subsequently these are recognised at the higher of:

- The amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

4. Summary of significant accounting policies (continued)

Legal claims

A provision for legal claims is recognised when all the recognition criteria for provisions above are met and is based on legal opinion, taking into account the risk and uncertainties surrounding the obligation.

Segment disclosure

For management purposes, the Group is organised into five operating divisions based on their products and/or services, which form the basis of reporting segment information in accordance with IFRS 8 *Operating Segments*. Further information on the operations of the operating divisions is available in the *Operational Review report*.

The operating segments are identified on the basis of internal reports that the Group's chief operating decision-maker reviews regularly in allocating resources to segments and in assessing their performance. Reportable segments are identified based on quantitative thresholds of revenue, profit or loss and assets.

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

Financial instruments

Recognition

Financial assets and financial liabilities are recognised on the statement of financial position when the Group has become party to the contractual provisions of the instruments. The Group applies trade date accounting for "regular way" purchases and sales of financial assets.

Classification

The Group classifies its financial assets in the following categories: *at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity*. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets specifically designated into this category on initial recognition.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term, is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or is a derivative (unless it is designated as a hedging instrument in an effective hedge or is a financial guarantee contract).

Financial assets or liabilities may be designated as at fair value through profit or loss on initial recognition when:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or liabilities, or recognising gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and information about groups of financial instruments is reported to the Group's key management personnel on that basis; or
- Financial instruments contain one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

4. Summary of significant accounting policies (continued)

The fair value designation, once made, is irrevocable.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated on initial recognition as "*at fair value through profit or loss"* or as *"available-for-sale*". Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated into this category at initial recognition or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period, in which case they are included in current assets.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has the positive intention and ability to hold to maturity, other than assets that are included in the other categories above.

Measurement

Financial instruments are initially recognised at their fair value plus, in the case of a financial asset or a financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, ie the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Where the transaction price does not provide the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on the basis of the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or when the financial instrument is derecognised. Subsequent to initial recognition these instruments are measured as set out below:

Investments

After initial recognition, investments in the Group's market making portfolios in both bonds and money market instruments, which are classified as held-for-trading, as well as those classified as available-for-sale, are measured at fair value. Fair value is the market value for listed investments or either the market value of a substantially similar investment or the present value of expected future cash flows of the net asset base for unlisted investments. Gains or losses on investments held-for-trading are recognised in profit or loss.

Other long-term investments that the Group is able to and intends to hold to maturity are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity.

4. Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, which include futures, forward exchange and currency option contracts, cross-currency and interest rate swaps and interest rate options to hedge its exposures arising from operational, financing and investment activities. In accordance with its Financial Risk Management policy, the Group does not speculate in the trading of derivative financial instruments.

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 through profit or loss. The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a stand-alone derivative when the Group first becomes a party to the contract.

Subsequent reassessment is only performed by the Group if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The fair value adjustments are recognised directly in the income statement (unless the derivative is designated as a hedging instrument in a cash flow hedge, refer below). The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of the forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

The Group applies fair value and cash flow hedge accounting to qualifying hedge relationships in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* by designating certain derivatives as hedges of the variability in the fair value of recognised assets, liabilities or unrecognised firm commitments (fair value hedges) or hedges of the variability in cash flows attributable to particular risks associated with recognised assets, liabilities or highly probable forecast transactions (cash flow hedges). At the inception of the hedge relationship, the relationship between the hedging instrument and the hedged item is documented, along with the risk management objectives and strategy for undertaking the various hedge transactions. Also at the inception of the hedge relationship and on an ongoing basis, the Group assesses whether the hedging instrument is highly effective in offsetting changes in fair value or cash flows of the hedged item.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset, liability or unrecognised firm commitment that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is initially recognised in other comprehensive income and accumulated in the cash flow hedge accounting reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The amounts initially recognised in other comprehensive income and included in equity are reclassified from equity to profit or loss in the period(s) in which the hedged item affects profit or loss and are included in the same line as the hedged item. However, where the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Long-term loans and advances

Long-term loans and advances are measured at amortised cost, using the effective interest rate method, less any impairment recognised. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

4. Summary of significant accounting policies (continued)

Trade and other receivables

Trade and other receivables, which generally have 30 to 90-day terms, are recognised and carried at amortised cost using the effective interest method. Allowances for irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The allowance accounts in respect of trade and loan receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount is possible, in which case the amount is considered irrecoverable and is written off against the financial asset directly.

The Group renegotiates terms for financial assets that would otherwise be past due or impaired in instances where the debtor provides evidence of the ability to meet the obligations in terms of the renegotiated terms. The impact of the renegotiated terms is recognised by an adjustment to the allowance for impairment for these financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and instruments which are readily convertible, within 90 days, to known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are measured at amortised cost. For the purposes of the consolidated cash flow statements, cash and cash equivalents include bank overdrafts.

Financial liabilities

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

Financial liabilities at fair value through profit or loss are measured at fair value and the resultant gains and losses are included in profit or loss. Buybacks on bonds are performed on a first-in first-out (FIFO) basis.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. Any difference between cost and redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

Financial liabilities designated as fair value through profit or loss

The financial liabilities designated as fair value through profit or loss represent a portion of the Group's bonds that are part of the Group's market making portfolio. The Group makes a market in its bonds to ensure that the bonds remain attractive to investors. Positions in Group's bonds are hedged with opposite positions in Government or Corporate bonds. These bonds are managed and their performance evaluated on a fair value basis in accordance with the Group's risk management strategy.

Trade payables and accruals

Liabilities for trade and other amounts payable which are settled within normal terms are stated at amortised cost.

Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment includes such factors as

4. Summary of significant accounting policies (continued)

significant financial difficulty experienced by the debtor, breach of contract by the debtor, concessions granted to the debtor by the Group to restructure payment terms, probability of bankruptcy or financial reorganisation of the debtor, and observable data indicating a measurable decrease in estimated future cash flows from a group of debtors even though the decrease cannot yet be identified with individual debtors in the portfolio.

If evidence of impairment exists, the estimated recoverable amount of the asset (or group of assets) is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets held at either cost or amortised cost—the carrying amount of the asset is reduced to its discounted estimated recoverable amount (present value of estimated future cash flows, discounted at the original effective interest rate), and the resulting loss is recognised in the income statement for the period. Receivables with a short duration are not discounted. Assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.
- For available-for-sale financial assets—where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that was previously recognised in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

An impairment loss in respect of a held-to-maturity security or a receivable carried at amortised cost is reversed through profit or loss if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss has been recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. An impairment loss in respect of a debt instrument classified as available-for-sale is reversed through profit and loss if it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was originally recognised in profit or loss.

An impairment loss in respect of an unquoted equity instrument that is not carried at fair value because its fair value cannot be measured reliably, whether recognised at an interim reporting date or at year-end, is not reversed in subsequent periods.

Offset

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

Financial liabilities and equity

Financial instruments issued by the Group are classified as either financial liabilities or equity according to their substance and the definitions of financial liabilities and equity.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognised at the fair value of the proceeds received, net of direct issue costs.

4. Summary of significant accounting policies (continued)

Gains and losses on financial instruments

Net gains or net losses on:

Available-for-sale financial assets are determined with reference to quoted share prices on the stock exchange and represent fair value adjustments that are recognised in other comprehensive income. Dividends are recognised in profit and loss when the right to receive payment is established. Impairment losses are recognised in profit or loss for the period.

Loans and receivables and financial assets held-to-maturity represent impairment losses or reversal of impairment losses, interest earned on outstanding balances, as well as gains or losses recognised on derecognition of the asset. These gains or losses are recognised in profit or loss for the period under finance costs.

Financial assets and liabilities held-for-trading represent fair value adjustments and arise as a result of the mark-to-market of these instruments using market inputs, as well as gains or losses on derecognition. Interest is included in the fair value adjustments. These gains or losses are recognised in profit or loss for the period on the fair value line.

Financial liabilities designated as at fair value through profit and loss represent fair value adjustments and arise as a result of the mark-to-market on the bonds using prices quoted on the Bond Exchange of South Africa, and as a result of derecognition. Interest is included in the fair value adjustments. These net gains or net losses are recognised in profit and loss for the period on the fair value line.

Financial liabilities at amortised cost represent the amortisation of discounts on or premiums given/received, interest costs as well as any derecognition gains or losses on these liabilities. Gains or losses on liabilities held at amortised cost are recognised in profit or loss for the period under finance costs.

Derecognition

Financial assets (or a portion thereof) are derecognised when the Group's rights to the cash flows expire, or when the Group transfers substantially all the risks and rewards related to the financial asset or when the Group loses control of the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the consolidated profit or loss.

Financial liabilities (or a portion thereof) are derecognised when the obligations specified in the contract are discharged, cancelled or expire. On derecognition, the difference between the carrying value of the financial liability, including related unamortised costs, and settlement amounts paid is included in the consolidated profit or loss.

Construction contracts

Construction contract balances represent the gross unbilled amount expected to be collected from customers for contract work performed to date. They are measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity. Construction work in progress is presented as part of trade and other receivables in the statement of financial position. Where payments received from customers exceed the income recognised, the difference is presented as deferred income in the statement of financial position.

Compensation receivable

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

4. Summary of significant accounting policies (continued)

Related party transactions

Transactions with related parties are conducted on an arm's length basis similar to transactions with third parties.

5. Accounting Standards issued but not effective

NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new or revised international financial reporting standards, amendments and interpretations of those standards which are applicable to the Group are not yet effective for the year ended 31 March 2013 and were not applied in preparing these consolidated financial statements:

Standard or interpretation	Detail	Effective date
IAS 1	**Presentation of Financial Statements**	Annual periods beginning on or after 1 July 2012.
(amendment)	*Presentation of other comprehensive income* The amendments require items of other comprehensive income, and the related taxation effect, to be grouped into those that will subsequently be reclassified to profit or loss and those that will not. The amendments will be applied retrospectively and will not have a material impact on the Group's financial statements.	
IAS 19	**Employee Benefits**	Annual periods beginning on or after 1 January 2013.
(revised)	The amendments require all actuarial gains or losses to be recognised immediately in other comprehensive income while all past-service cost, whether vested or not, are recognised in full in profit or loss in the period of the plan amendment. Interest cost on the defined benefit obligation and the expected return on plan assets are both replaced with a net interest cost based on the net defined benefit asset or liability at a discount rate determined at the beginning of the year. In addition, benefits may only be classified as short-term employee benefits if they are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. The revised standard will be applied retrospectively and is not expected to have a material impact on the Group's financial statements.	
IAS 27	**Separate Financial Statements**	Annual periods beginning on or after 1 January 2013.
(revised)	The amended standard now only deals with the requirements for separate financial statements. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments.*	

5. Accounting Standards issued but not effective (continued)

Standard or interpretation	Detail	Effective date
	The revised standard will be applied retrospectively and is not expected to have a material impact on the Group's financial statements.	
IAS 28	**Investments in Associates and Joint Ventures**	Annual periods beginning on or after 1 January 2013.
(revised)	This standard supersedes IAS 28 *Investments in Associates* and applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture). The revised standard sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. It also prescribes how investments in associates and joint ventures should be tested for impairment. The revised standard will be applied retrospectively and is not expected to have a material impact on the Group's financial statements.	
IAS 32	**Financial Instruments: Presentation**	Annual periods beginning on or after 1 January 2014.
(amendment)	The standard has been amended to clarify certain aspects relating to four main areas related to the offsetting of amounts in the financial statement: b. The meaning of 'currently has a legally enforceable right of set-off'; c. The application of simultaneous realisation and settlement; d. The offsetting of collateral amounts; and e. The unit of account for applying the offsetting requirements.	
IFRS 9	**Financial Instruments**	Annual periods beginning on or after 1 January 2015.
(new)	IFRS 9 requires all recognised financial assets to be measured either at amortised cost or fair value depending on the business model under which they are held and the cash flow characteristics of the instrument. Debt instruments held with the principal objective to collect contractual cash flows (principal and interest) are generally measured at amortised cost while all other debt instruments and all equity instruments are measured at fair value. Derivatives embedded in host contracts that are financial assets are no longer required to be bifurcated if they are not closely related to the host contract. Instead, the entire contract is assessed for measurement either at amortised cost or at fair value depending on the business model and cash flow characteristics as stated above. Derivatives embedded in contracts that are not financial assets, including financial liabilities still need to be assessed to determine whether they should be accounted for separately.	

5. Accounting Standards issued but not effective (continued)

Standard or interpretation	Detail	Effective date
	The new standard removes the cost exemption for unquoted equity instruments and contains additional disclosure requirements for financial liabilities as well as derecognition of financial instruments. The standard will be applied retrospectively subject to the standard's transitional provisions. The impact on the Group's financial statements has not yet been estimated.	
IFRS 10	**Consolidated financial statements**	Annual periods beginning on or after 1 January 2013.
(new)	IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS supersedes IAS 27 Consolidated and Separate financial statements and SIC-12 Consolidation—Special-purpose Entities. IFRS 10 changes the definition of control and eliminates the risk and rewards approach previously included in SIC-12. The existing IAS 27 is renamed IAS 27 Separate Financial Statements, and now deals solely with separate financial statements. The existing guidance for separate financial statements is unchanged. The new standard is not expected to have a material impact on the Group's financial statements. The standard will be applied retrospectively and earlier application is permitted.	
IFRS 11	**Joint arrangements**	Annual periods beginning on or after 1 January 2013.
(new)	IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. The IFRS supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. The new standard reduces the types of joint arrangements to two, namely joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will apply accounting similar to that for joint assets or joint operations under the old IAS 31. The new standard is not expected to have a material impact on the Group's financial statements. The standard will be applied retrospectively and earlier application is permitted.	
IFRS 12	**Disclosure of interests in other entities**	Annual periods beginning on or after 1 January 2013.
(new)	The IFRS sets out the required disclosures for entities reporting under the two new standards; IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. It also replaces the disclosure requirements currently found in IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.	

5. Accounting Standards issued but not effective (continued)

Standard or interpretation	Detail	Effective date
	The new standard will be applied retrospectively and is not expected to have a material impact on the Group's financial statements.	
IFRS 13	**Fair value measurement**	Annual periods beginning on or after 1 January 2013.
(new)	IFRS 13 aims to provide clearer and more consistent guidance on measuring fair value and enhance fair value disclosures. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The new standard will be applied prospectively and earlier application is permitted. The standard is not expected to have a material impact on the Group's financial statements.	

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

Standard or interpretation	Title	Effective date
IFRIC 20	**Stripping Costs in the Production Phase of a Surface**	1 January 2013.
(new)	**Mine**	
	International financial reporting standards interpretation committee 20 addresses the recognition of production stripping costs as an asset, the initial measurement of stripping activity asset at cost and the subsequent measurement of the stripping activity asset.	

6. Revenue

	2013 R million	**2012 R million**	**2011 R million**
Rendering of services	**48,734**	45,158	37,658
Rental income	**1,323**	1,210	1,092
Finance income from lending activities	**14**	20	12
Construction contracts (refer note 29)	**764**	967	393
Revenue clawback adjustment	**(641)**	(1,455)	(1,167)
Discontinued operations	**—**	—	(36)
	50,194	45,900	37,952

7. Finance income

	2013 R million	**2012 R million**	**2011 R million**
Interest received – Bank deposits	**252**	336	416
Interest received – Loans and receivables	**70**	71	50
Interest received – held-to-maturity	**83**	81	95
Finance income	**405**	488	561

8. Net operating expenses excluding depreciation and amortisation

	2013 R million	2012 R million	2011 R million
Accommodation and refreshments	**313**	314	229
Electronic data costs	**720**	662	431
Energy costs	**5,470**	4,446	3,384
Health and sanitation	**374**	300	259
Insurance	**205**	262	216
Maintenance costs	**254**	431	424
Managerial and technical consulting fees	**1,599**	806	740
Material costs	**2,592**	2,307	1,576
Operating leases	**1,479**	1,493	1,482
Personnel costs	**14,507**	14,063	11,840
Printing and stationary	**90**	79	58
Loss/(profit) on disposal of property plant and equipment	**62**	(39)	(33)
Promotions and advertising	**190**	167	128
Security	**783**	713	641
Telecommunications	**262**	232	202
Transport	**95**	90	65
Research and development costs	**137**	71	46
Other costs	**11**	621	578
Net operating costs excluding depreciation and amortisation	**29,143**	27,018	22,189

	2013 R million	2012 R million	2011 R million
Auditors' remuneration			
Group auditors			
Audit fees	**53**	67	62
Audit fees – prior year underprovision	**—**	—	2
Fees for audit-related and other services (1)	**13**	13	17
Expenses	**3**	1	2
Auditors' remuneration	**69**	81	83
Managerial and technical consulting fees	**1,599**	806	740

(1) These fees relate mainly to quarterly and Global Medium-Term Note programme reviews conducted by external audit during the year.

	2013 R million	2012 R million	2011 R million
Operating lease charges			
Land, buildings and structures	**861**	879	760
Vehicles	**562**	539	530
Rolling stock	**35**	55	55
Other	**21**	20	137
	1,479	1,493	1,482

	2013 R million	2012 R million	2011 R million
Directors and executives emoluments			
Executive directors	**14**	22	27
Non-executive directors	**7**	8	6
Senior executives	**67**	101	91
	88	131	124

9. Depreciation and amortisation

	2013 R million	2012 R million	2011 R million
Depreciation and derecognition			
Depreciation – owned assets at historic cost			
Aircraft	**23**	22	22
Floating craft	**108**	108	—
Land, buildings and structures	**751**	602	513
Machinery, equipment and furniture	**498**	491	498
Permanent way and works	**745**	777	493
Rolling stock and containers	**4,344**	4,028	3,597
Vehicles	**59**	30	38
	6,528	6,058	5,161
Depreciation – owned assets revalued portion			
Pipeline networks	**515**	355	306
Port facilities	**1,837**	1,628	1,462
	2,352	1,983	1,768
Depreciation – leased assets at historic cost			
Rolling stock and containers	**160**	67	55
Machinery, equipment and furniture	**17**	14	14
Permanent way and works	**28**	33	26
	205	114	95
Total depreciation	**9,085**	8,155	7,024
Amortisation of intangible assets (note 18)			
Software and licenses – continuing operations	**192**	200	160
Total depreciation and amortisation	**9,277**	8,355	7,184

10. Fair value adjustments

	2013 R million	2012 R million	2011 R million
Fair value adjustments			
Derivative fair value adjustments	**98**	**27**	(100)
Fair value adjustment of investment property	**274**	**353**	637
Fair value adjustments on firm commitments	**(150)**	**(59)**	88
Loss on redemption of T018 bond	**—**	**(523)**	—
Total fair value adjustments	**222**	**(202)**	625

11. Loss on disposal of discontinued operations, net of taxation

	2013 R million	2012 R million	2011 R million
Loss on disposal of interest in Freightdynamics (Pty) Ltd.	**—**	**—**	38
Profit on disposal of other	**—**	**—**	(9)
Net loss on disposal of discontinued operations	**—**	**—**	29

12. Post-retirement benefit obligation (income)/cost

	2013 R million	2012 R million	2011 R million
Transport Pension Fund: Transnet Sub-Fund	**(156)**	(204)	(172)
Transnet Second Defined Benefit Fund	**(101)**	(147)	(7)
Transnet Top Management Pension Fund	**6**	7	7
Transnet Workmen's Compensation Act Pensioners Fund	**35**	32	30
Transnet SATS Pensioner's post-retirement medical benefits	**56**	69	79
Transnet employees post-retirement medical benefits	**62**	62	58
Other post-retirement and medical benefits	**70**	150	160
Net post-retirement benefit obligation costs	**(28)**	(31)	155

13. Impairment of assets

	2013 R million	2012 R million	2011 R million
Property, plant and equipment	**67**	150	291
(Reversal of impairment)/impairment of subsidiaries and associates	**(1)**	1	(3)
Long-term loans and advances	**(3)**	10	29
Impairment reversal of assets held-for-sale	**—**	(66)	—
Trade and other receivables	**496**	247	220
Intangible Assets	**29**	—	—
	588	342	537

14. Finance costs

	2013 R million	2012 R million	2011 R million
Net financing costs			
Net foreign exchange loss/(gain) on translation	**179**	(8)	(21)
Discounts on bonds amortised	**38**	30	32
Finance lease obligations	**16**	19	22
Interest cost – financial liabilities at amortised cost	**6,365**	5,859	5,166
Gross finance costs	**6,598**	5,900	5,199
Borrowing costs capitalised*	**(1,053)**	(1,645)	(1,760)
Net finance costs	**5,545**	4,255	3,439

* *The weighted average capitalisation rate on funds borrowed generally is 11.84 per cent. per annum (2012: 9.86 per cent. per annum, 2011: 9.83 per cent. per annum)*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, amortisation of discounts on bonds and foreign exchange gains and losses, less amounts capitalised to qualifying assets.

15. Taxation

Current taxation

	2013 R million	2012 R million	2011 R million
South African normal taxation			
– Current year	**39**	173	898
– Transfer to deferred taxation	**—**	(66)	—
Deferred taxation			
– Current year	**1,937**	1,933	723
– Prior year	**—**	66	—
– Release of deferred taxation	**—**	—	(120)
Capital gains taxation			
– Current year	**—**	9	—
Foreign taxation			
– Current year	**4**	7	7
Continuing operations	1,980	2,122	1,508

Reconciliation of taxation rate

	Per cent.	Per cent.	Per cent.
Standard rate – South African normal taxation	**28.00**	28.00	28.00
Expenses not included for taxation purposes	**3.33**	2.27	0.97
Adjustment to prior year deferred taxation charge	**—**	3.73	—
Release of deferred taxation	**—**	—	(2.14)
Effective rate of taxation	**31.33**	34.00	26.83
Continued operations	**31.33**	34.00	26.49
Discontinued operations	**—**	—	0.34
Total effective rate of taxation for continuing and discontinuing operations	**31.33**	34.00	26.83

Deferred taxation

	2013 R million	2012 R million	2011 R million
Deferred taxation liabilities			
Opening balance	**18,050**	15,415	12,473
Income statement charge	**1,937**	1,933	603
Raised in other comprehensive income	**484**	702	2,339
Total deferred taxation liability	**20,471**	18,050	15,415
Analysis of major categories of temporary differences:			
Deferred taxation assets			
Provisions	**871**	786	693
Employee benefit obligation	**1,565**	1,235	1,210
Revenue received in advance and deferred	**2,138**	1,522	766
Capitalised lease liability	**1,075**	1,204	1,262
Doubtful debts	**303**	199	148
Other	**—**	5	
	5,952	4,951	4,079
Deferred taxation liabilities			
Deferred expenditure	**147**	160	150
Property, plant and equipment	**26,138**	22,818	19,251
Future expenditure allowance	**43**	23	37
Other	**95**	—	56
	26,423	23,001	19,494
Net deferred taxation liability	**20,471**	18,050	15,415

No deferred taxation asset has been raised in respect of secondary tax on companies credits available as they are unlikely to be utilised given the capital requirements of the company and the change in regime from secondary taxation on companies to a withholding taxation on dividends, from which the Company is exempt.

16. Property, plant and equipment

Property, plant and equipment reconciliation at 31 March 2013

	Aircraft R million	Floating craft R million	Land, buildings, structures R million	Machinery, equipment, furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock, containers R million	Vehicles R million	Capital work in progress R million	Total R million
Group											
Historical cost and revaluation	153	2,127	18,746	6,683	23,075	27,846	77,169	48,136	816	13,096	**217,847**
Accumulated depreciation	(89)	(387)	(3,556)	(3,414)	(4,386)	(9,328)	(23,101)	(15,035)	(500)	—	**(59,796)**
Accumulated impairment	—	—	(159)	(177)	(246)	(204)	(607)	(477)	(1)	(227)	**(2,098)**
Opening net carrying value at 1 April 2012	64	1,740	15,031	3,092	18,443	18,314	53,461	32,624	315	12,869	**155,953**
Replacements	7	7	147	44	179	—	11	204	20	15,601	**16,220**
Expansions	—	—	1,875	17	—	—	326	—	20	8,995	**11,233**
Acquisition through lease	—	—	—	18	—	—	—	—	—	—	**18**
Disposals	—	—	(5)	(7)	—	—	(1)	(37)	—	—	**(50)**
Depreciation	(23)	(108)	(749)	(513)	(723)	(515)	(1,837)	(4,010)	(59)	—	**(8,537)**
Derecognition	—	—	(2)	(2)	(50)	—	—	(494)	—	—	**(548)**
Revaluation	—		9	—	—	423	1,325	—	—	—	**1,757**
Impairment-historical cost and revaluation	—	(1)	(10)	14	(4)	(48)	7	(32)	(5)	12	**(67)**
Transferred to intangible assets	—	—	—	(29)	—	—	—	—	—	(34)	**(63)**
Transfers (to)/from non-current assets classified as held-for-sale	—	—	—	(3)	—	—	(3)	(32)	—	—	**(38)**
Transfer from/(to) investment property	—	—	96	—	—	—	—	—	—	—	**96**
Foreign exchange adjustment	—	—	8	—	—	—	—	—	—	—	**8**
Borrowing cost capitalised	—	—	6	4	1	—	1	733	2	306	**1,053**
Release of firm commitment	—	—	—	—	—	—	—	—	—	(114)	**(114)**
Transfer from capital work-in-progress to assets	—	7	1,516	616	1,971	96	2,903	10,840	149	(18,098)	**—**
	(16)	(95)	2,891	159	1,374	(44)	2,732	7,172	127	6,668	**20,968**
Closing carrying value	**48**	**1,645**	**17,922**	**3,251**	**19,817**	**18,270**	**56,193**	**39,796**	**442**	**19,537**	**176,921**
Historical cost and revaluation	157	2,131	22,392	7,199	25,166	28,782	82,110	57,857	988	19,755	**246,537**
Accumulated depreciation	(109)	(485)	(4,308)	(3,784)	(5,099)	(10,266)	(25,319)	(17,568)	(540)	—	**(67,478)**
Accumulated impairment	—	(1)	(162)	(164)	(250)	(246)	(598)	(493)	(6)	(218)	**(2,138)**
Closing carrying value at 31 March 2013	**48**	**1,645**	**17,922**	**3,251**	**19,817**	**18,270**	**56,193**	**39,796**	**442**	**19,537**	**176,921**

* Provided that the relevant hedge accounting conditions are met, when a firm commitment transaction is entered into to acquire a property, plant or equipment asset that has been hedged, the initial carrying amount of that asset is adjusted to include the cumulative changes in the fair value of the firm commitment and recognised in profit or loss. This has been defined as "release of firm commitments to income statement". Gains and losses on the hedging instrument that were recognised in equity are taken to the initial cost or carrying amount of the asset (defined as "transferred from cashflow hedge").

16. Property, plant and equipment (continued)

Property, plant and equipment reconciliation at 31 March 2012

	Aircraft R million	Floating craft R million	Land, buildings, structures R million	Machinery, equipment, furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock, containers R million	Vehicles R million	Capital work in progress R million	Total R million
Group											
Historical cost and revaluation	153	—	15,965	5,874	18,930	13,867	74,314	39,106	809	23,202	**192,220**
Accumulated depreciation	(67)	—	(2,985)	(3,028)	(3,726)	(9,037)	(21,107)	(12,522)	(489)	—	**(52,961)**
Accumulated impairment	—	—	(190)	(53)	(22)	(217)	(589)	(274)	(1)	(77)	**(1,423)**
Opening net carrying value at 1 April 2011	86	—	12,790	2,793	15,182	4,613	52,618	26,310	319	23,125	**137,836**
Replacements	—	12	9	181	764	—	20	743	1	8,584	**10,314**
Expansions	—	—	259	47	—	—	185	—	3	11,091	**11,585**
Acquisition through lease	—	—	—	17	—	—	—	—	—	—	**17**
Decommissioning liability	—	—	—	—	—	8	335	—	—	—	**343**
Disposals	—	—	—	(3)	(4)	(11)	(6)	(7)	(1)	(19)	**(51)**
Depreciation	(22)	(108)	(602)	(505)	(690)	(355)	(1,628)	(3,593)	(30)	—	**(7,533)**
Derecognition	—	—	—	—	(120)	—	—	(502)	—	—	**(622)**
Revaluation	—		71	—	—	166	2,730	—	—	—	**2,967**
Impairment-historical cost and revaluation	—	—	41	(62)	(222)	12	(18)	(111)	—	210	**(150)**
Transferred to intangibles assets	—	—	—	(88)	—	—	—	—	—	(131)	**(219)**
Transfers (to) /from non-current assets classified as held-for-sale	—	—	—	(2)	1	—	(2)	86	—	(26)	**57**
Transfer to investment property	—	—	(92)	—	—	—	—	—	—	—	**(92)**
Transfers within categories	—	1,575	—	(22)	—	—	(1,575)	20	2	—	**—**
Borrowing cost capitalised	—	3	62	6	—	1,981	—	—	—	(408)	**1,644**
Release of firm commitment	—	—	—	—	—	—	—	—	—	(53)	**(53)**
Transfer to Inventory	—	—	—	—	—	—	—	(89)	—	(1)	**(90)**
Transfer from capital work in progress	—	258	2,493	730	3,532	11,900	802	9,767	21	(29,503)	**—**
	(22)	1,740	2,241	299	3,261	13,701	843	6,314	(4)	(10,256)	**18,117**
Closing carrying value	**64**	**1,740**	**15,031**	**3,092**	**18,443**	**18,314**	**53,461**	**32,624**	**315**	**12,869**	**155,953**
Historical cost and revaluation	153	2,127	18,746	6,683	23,075	27,846	77,169	48,136	816	13,096	**217,847**
Accumulated depreciation	(89)	(387)	(3,556)	(3,414)	(4,386)	(9,328)	(23,101)	(15,035)	(500)	—	**(59,796)**
Accumulated impairment	—	—	(159)	(177)	(246)	(204)	(607)	(477)	(1)	(227)	**(2,098)**
Closing carrying value at 31 March 2012	**64**	**1,740**	**15,031**	**3,092**	**18,443**	**18,314**	**53,461**	**32,624**	**315**	**12,869**	**155,953**

* Provided that the relevant hedge accounting conditions are met, when a firm commitment transaction is entered into to acquire a property, plant or equipment asset that has been hedged, the initial carrying amount of that asset is adjusted to include the cumulative changes in the fair value of the firm commitment and recognised in profit or loss. This has been defined as "release of firm commitments to income statement". Gains and losses on the hedging instrument that were recognised in equity are taken to the initial cost or carrying amount of the asset (defined as "transferred from cashflow hedge").

16. Property, plant and equipment (continued)

Property, plant and equipment reconciliation at 31 March 2011

	Aircraft R million	Land, buildings and structures R million	Machinery, equipment and furniture R million	Permanent way and works R million	Pipeline networks R million	Port facilities R million	Rolling stock and containers R million	Vehicles R million	Capital work in progress R million	Total R million
Group										
Historical cost and revaluation	153	13,290	5,695	15,461	12,838	59,040	30,084	798	21,048	**158,407**
Accumulated depreciation	(45)	(2,548)	(2,759)	(3,247)	(8,407)	(16,034)	(10,076)	(463)	—	**(43,579)**
Accumulated impairment	—	(205)	(68)	(11)	(219)	(552)	(107)	(1)	(86)	**(1,249)**
Opening net carrying value at 1 April 2010	108	10,537	2,868	12,203	4,212	42,454	19,901	334	20,962	**113,579**
Additions	—	301	240	183	84	542	99	3	20,052	**21,504**
Disposals	—	(47)	(8)	—	—	—	(144)	(1)	(13)	**(213)**
Depreciation	(22)	(512)	(512)	(426)	(306)	(1,462)	(3,267)	(37)	—	**(6,544)**
Derecognition	—	(1)	—	(93)		—	(385)	(1)	—	**(480)**
Revaluation	—	264	—	—	310	8,210	—	—	—	**8,784**
(Impairment)/reversal – historical cost and revaluation	—	(3)	5	(11)	(12)	(38)	(167)	—	(65)	**(291)**
Transferred to intangibles assets	—	—	—	—	—	—	—	—	(182)	**(182)**
Transfers (from)/to non-current assets classified as held-for-sale	—	233	28	(214)	—	—	23	—	—	**70**
Transfer to investment property	—	(143)	—	—	—	—	—	—	—	**(143)**
Borrowing cost capitalised	—	9	7	—	—	50	—	—	1,694	**1,760**
Release of firm commitments to income statement*	—	—	—	—	—	—	—	—	(8)	**(8)**
Capitalisation of firm commitments	—	—	—	—	—	—	—	—	—	**—**
Transfer from capital work in progress to assets	—	2152	165	3,540	325	2,862	10,250	21	(19,315)	**—**
	(22)	2,253	(75)	2,979	401	10,164	6,409	(15)	2,163	**24,257**
Closing carrying value	86	12,790	2,793	15,182	4,613	52,618	26,310	319	23,125	**137,836**
Made up as follows:										
Historical cost and revaluation	153	15,965	5,874	18,930	13,867	74,314	39,106	809	23,202	**192,220**
Accumulated depreciation	(67)	(2,985)	(3,028)	(3,726)	(9,037)	(21,107)	(12,522)	(489)	—	**(52,961)**
Accumulated impairment	—	(190)	(53)	(22)	(217)	(589)	(274)	(1)	(77)	**(1,423)**
Closing carrying value at 31 March 2011	**86**	**12,790**	**2,793**	**15,182**	**4,613**	**52,618**	**26,310**	**319**	**25,125**	**137,836**

* Provided that the relevant hedge accounting conditions are met, when a firm commitment transaction is entered into to acquire a property, plant or equipment asset that has been hedged, the initial carrying amount of that asset is adjusted to include the cumulative changes in the fair value of the firm commitment and recognised in profit or loss. This has been defined as "release of firm commitments to income statement". Gains and losses on the hedging instrument that were recognised in equity are taken to the initial cost or carrying amount of the asset (defined as "transferred from cashflow hedge").

16. Property, plant and equipment (continued)

Land, building and structures

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

During the year, the Group transferred R 96 million (2011: R nil) from investment properties to property, plant and equipment. The fair values of these properties are deemed as cost for subsequent accounting in accordance with IAS 40.

In the previous year, the Group transferred R 92 million (2011: R 143 million) from property, plant and equipment to investment properties. The carrying values of these properties were restated to fair value in accordance with IAS 16.

Rolling stock

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

	2013 R million	2012 R million	2011 R million
Book value of refurbished leased and leased back locomotives	**—**	1,805	1,982
Carrying value of capitalised leased assets included in rolling stock	**565**	520	491

Pipeline networks

The Group's policy is to perform a revaluation of its pipeline networks every three years and apply appropriate valuation indices in the intervening years. An external revaluation was performed in the prior year, by Arthur D. Little Inc., an independent firm of professional valuers on the basis of the modern equivalent net asset value. In the current year an index revaluation resulted in a net increase of R423 million (2012: R 166 million, 2011:

R 310 million) to the carrying value of the Group's pipeline networks, which has been adjusted accordingly.

	2013 R million	2012 R million	2011 R million
Historic cost carrying values of revalued pipeline assets	**15,580**	15,796	2,060

Port facilities

The Group's policy is to perform a revaluation of its port operating assets and infrastructure every three years and apply appropriate valuation indices in the intervening years. In the current year, the index revaluation resulted in an increase of R 1,063 million (2012: R 2,430 million, 2011: R 8,136 million) for port infrastructure and an increase of R 262 million (2012: R 300 million, 2011: R 74 million) for port operating assets.

The estimated replacement cost of port infrastructure assets that are subject to revaluation amount to R 53.9 billion (2012: R 47.3 billion, 2011: R 45.5 billion) as determined by independent valuation experts, however the revaluation was limited to the present value of future discounted cash flows, amounting to R 47.9 billion (2012: R 46.6 billion, 2011: R 43.4 billion) in the current year.

	2013 R million	2012 R million	2011 R million
Historic carrying values of port infrastructure assets	**19,153**	18,305	18,657

Included in Port facilities are incumbered assets of R 1,009 million (2012: R 1,108 million, 2011: R 1,222 million) as security for the finance leases.

Useful lives and residual values

In terms of IAS 16: Property, Plant and Equipment the useful lives and residual values of property, plant and equipment must be reviewed at each statement of reporting date. The useful lives are estimated by management based on historic analysis, benchmarking and other available information. The residual values are based on the assessment of useful lives and other available information.

17. Investment properties

	2013 R million	2012 R million	2011 R million
Fair value at the beginning of the year	**7,732**	7,368	6,604
Net transfer (to)/from property, plant and equipment	**(96)**	92	143
Recognised in income statement	**274**	353	637
Disposals	**(2)**	(5)	—
Additions	**30**	—	1
Transferred to assets held for sale	**—**	(76)	(17)
Fair value at the end of the year	**7,938**	7,732	7,368

The fair value of the Group's investment properties at 31 March 2013 was arrived at on the basis of valuations carried out at that date by Transnet Property valuers.

The valuations, which conform to the Property Valuers Profession Act, No 47 of 2000, were arrived at by capitalising the first year's normalised net operating income at a market derived capitalisation rate.

Various assumptions were made in order to derive the net present value of the future cash flows. These assumptions were arrived at after wide consultation with subject matter experts.

The more critical assumptions made were:

- Future cash flows were based on the after-taxation market-related rentals per investment property.
- The capitalisation rate used to discount cash flows for the purposes of determining present value was the market-related return rate adjusted to reflect the appropriate risk profile of each individual property.
- Capitalisation rates were between 10 per cent. and 15 per cent. for the various properties.

The gross property rental income earned by the Group from its investment properties, which are leased out under gross operating leases amounted to R 1,323 million (2012: R 1,210 million, 2011: R 1,092 million).

Direct operating expenses arising on the investment properties during the year amounted to R356 million (2012: R 325 million, 2011: R 293 million).

18. Intangible assets

	2013 R million	2012 R million	2011 R million
*Finite life intangible assets**			
Cost			
Balance at the beginning of the year	**1,582**	1,283	1,145
Additions	**108**	88	21
Borrowing costs capitalised	**—**	1	—
Disposals	**(165)**	(26)	(65)
Transferred from assets classified as held-for-sale	**—**	17	—
Transfers in from property, plant and equipment	**63**	219	182
Balance at the end of the year	**1,588**	1,582	1,283
Accumulated amortisation and impairment			
Balance at the beginning of the year	**(996)**	(819)	(724)
Disposals	**163**	26	65
Amortisation	**(192)**	(200)	(160)
Transferred from assets classified as held-for-sale	**—**	(3)	—
Impairment	**(29)**	—	—
Balance at the end of the year	**(1,054)**	(996)	(819)
Carrying amount			
At beginning of the year	**586**	464	421
At end of the year	**534**	586	464

18. Intangible assets (continued)

Software and licences are assessed as having a finite life and are amortised on a straight-line basis over a period of three to five years.

19. Investments in associates and joint ventures

	2013 R million	**2012 R million**	**2011 R million**
Balance at the beginning of the year	**72**	81	21
Equity accounted earnings	**24**	(6)	58
Dividends received	**(1)**	(2)	(1)
Reversal of impairments/(impairments)	**1**	(1)	3
Disposals	**(3)**	—	—
Balance at the end of the year	**93**	72	81
Directors' valuation of unlisted investments in associates and joint ventures (at carrying values)	**93**	72	81
Total income/(loss) from associates and joint ventures	**24**	(6)	58

Notes to the consolidated financial statements
for the 3 years ended 31 March 2013

19. Investments in associates and joint ventures (continued)

List of associates and joint ventures*

		Effective holding		Cost		Interest of holding company indebtedness		Accumulated impairment and losses		Share of post-acquisition reserves		Total	Total
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
		Per cent.	Per cent.	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Associates	**Principal activity**												
Commercial Cold Storage (Ports)	Storage and bondage	**30**	30	**—**	—	**1**	1	**—**	—	**10**	11	**11**	12
Comazar (Pty) Ltd †	Transport logistics	**32**	32	**13**	13	**8**	8	**21**	21	**—**	—	**—**	—
Mossel Bay Waterfront Development (Pty) Ltd†	Property development and management	**15**	15	**2**	2	**—**	—	**2**	2	**—**	—	**—**	—
Cape Town Bulk Storage (Pty) Ltd#	Port operations	**—**	50	**—**	1	**—**	2	**—**	1	**—**	(2)	**—**	—
Experience Delivery Company (Pty) Ltd	Managing agent	**11**	11	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—
RainProp (Pty) Ltd	Property development and management	**20**	20	**3**	3	**—**	—	**—**	—	**55**	51	**58**	54
Joint ventures													
Gabarone container Terminal	Container terminal	**36**	36	**6**	6	**—**	—	**—**	—	**18**	—	**24**	6
				24	25	**9**	11	**23**	24	**83**	60	**93**	72

* Incorporated in the Republic of South Africa.
† Dormant.
\# Sold during the year.

19. Investments in associates and joint ventures (continued)

		Effective holding 2011 Per cent.	Cost 2011 R million	Interest of holding company indebtedness 2011 R million	Accumulated impairment and losses 2011 R million	Share of post-acquisition reserves 2011 R million	Total 2011 R million
Associates	**Principal activity**						
Commercial Cold Storage (Ports)	Storage and bondage	30	—	1	—	11	12
Comazar (Pty) Ltd †	Transport logistics	32	13	8	21	—	—
Mossel Bay Waterfront Development (Pty) Ltd†	Property development and management	15	2	—	2	—	—
Cape Town Bulk Storage (Pty) Ltd	Port operations	50	1	2	—	—	3
Experience Delivery Company (Pty) Ltd	Managing agent	11	—	—	—	—	—
RainProp (Pty) Ltd	Property development and management	20	3	—	—	57	60
Joint ventures							
Gabarone container Terminal	Container terminal	36	6	—	—	—	6
			25	11	23	68	81

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

19. Investments in associates and joint ventures (continued)

Summarised financial information of significant associates

	Commercial Cold Storage (Ports) (Pty) Ltd 2013 R million	Gabarone Container Terminal 2013 R million	RainProp (Pty) Ltd 2013 R million
Financial position			
Total assets	**52**	55	964
Total liabilities	**12**	2	621
Results of operations			
Revenue	**32**	22	158
Net(loss)/profit	**1**	6	34

20. Other investments and long and short term financial assets and other liabilities

	2013 R million	2012 R million	2011 R million
Other financial assets	**671**	568	468
Total long-term investments and long-term financial assets	**671**	568	468
Short-term portion of other investments including market making positions held-for-trading	**1,359**	2,755	1,566
Total short-term investments	**1,359**	2,755	1,566
Security of supply petroleum levy*	**3,847**	2,591	1,315
Other	**9**	12	7
	3,856	2,603	1,322

* *During the year, the Group received R 1.5 billion (2012: R 1.5 billion, 2011: R1.5 billion) inclusive of VAT from Government for the security of supply petroleum requirement of the New Multi-Product Pipeline. The levy, in terms of the Minister of Finance approval, totals R 4.5 billion (VAT inclusive) and is receivable over a period of three years which commenced in the 2011 Financial Year. The levy is administered by the Department of Energy and is receivable in quarterly instalments of R 375 million (VAT inclusive), subject to progress on the project. In January 2012 the pipeline was commissioned which resulted in R 43 million (2012: R 5million , 2011: R nil) being recognised in the income statement. In the current year R 53 million was transferred to current liabilities being the portion that will be recognised as revenue in the 2014 Financial Year.*

Deferred income Transnet National Ports Authority	2013 R million	2012 R million	2011 R million
Balance at the beginning of the year	**2,137**	750	—
Unwinding of prior year Clawback	**(540)**	(186)	—
Additional Clawback raised	**1,263**	1,573	750
Interest factor on Clawback	**178**	—	—
	3,038	2,137	750
Less: Short-term portion classified as current liabilities**	**(900)**	(540)	(243)
	2,138	1,597	507

** R900 million for the provision of excessive tariff increase margin credit raised in the 2012 Financial Year was reassessed and reclassified as a short-term liability from long-term liability as at 31 March 2013.

Deferred income Transnet Pipelines	2013 R million	2012 R million	2011 R million
Balance at the beginning of the year	**485**	417	—
Unwinding of prior year Clawback	**(485)**	(285)	—
Additional Clawback raised	**403**	353	417
	403	485	417
Less: Short-term portion classified as current liabilities	**(227)**	(485)	(417)
Add: Long-term portion classified as non-current asset	**51**	—	—
	227	—	—
Total other non-current liabilities	**6,221**	4,200	1,829
Total other current liabilities	**1,127**	1,025	660

21. Derivative financial instruments

	2013 R million	2012 R million	2011 R million
Derivative financial assets			
Opening balance	**502**	45	39
Fair value adjustments	**2,652**	373	78
Derivative raised and settled	**701**	84	(72)
Closing balance	**3,855**	502	45
Derivative financial liabilities			
Opening balance	**144**	650	549
Fair value adjustments	**68**	21	696
Recognised in other comprehensive income	**—**	—	(65)
Derivatives raised and settled	**(127)**	(527)	(570)
Deferred day one loss	**—**	—	40
Closing balance	**85**	144	650
Derivative fair value adjustments	**98**	27	(100)
Finance costs	**(1,004)**	(635)	(356)
Recognised in other comprehensive income	**3,490**	960	(162)
Net fair value adjustments	**2,584**	352	(618)
Comprise the following financial instruments:			
Non-current assets			
Forward exchange contracts	**—**	15	15
Cross-currency swaps and options	**3,821**	452	—
	3,821	467	15
Current assets			
Forward exchange contracts	**34**	35	29
Cross-currency swaps and options	**—**	—	1
	34	35	30
Total derivative assets	**3,855**	502	45
Non-current liabilities			
Forward exchange contracts	**62**	82	101
Cross-currency swaps and options	**—**	—	457
	62	82	558
Current liabilities			
Forward exchange contracts	**23**	62	91
Cross-currency swaps and options	**—**	—	1
	23	62	92
Total derivative liabilities	**85**	144	650

Fair value hedges of firm commitments

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

At 31 March 2013, the Group held a series of forward exchange contracts as hedging instruments for this purpose. These hedges were assessed to be effective. The ineffective portion of the hedge has been recorded in profit or loss.

21. Derivative financial instruments (continued)

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

	2013 R million	2012 R million	2011 R million
Currency bought forward – Japanese yen – profit / (loss)	**12**	15	(31)
Currency bought forward – Australian dollar – profit	**5**	—	—
Currency bought forward – United states dollar – profit / (loss)	**15**	(29)	(4)
Currency bought forward – Euros – loss	**(83)**	(94)	(105)

The net fair value gain/(loss) recognised in profit or loss on these fair value hedges during the year was R nil (2012: R nil, 2011: R nil). This net fair value adjustment comprised of a loss of R 150 million (2012: R 59 million, 2011: R 78 million) with respect to foreign exchange risk on the firm commitments, and a gain of R 150 million (2012: R 59 million, 2011: R 78 million) on the forward exchange contracts.

The nominal value of these forward exchange contracts at 31 March were as follows:

	2013 R million	2012 R million	2011 R million
Currency bought forward – Rand equivalent			
Japanese yen	**337**	791	1,562
Australian Dollar	**82**	—	26
United States dollar	**407**	914	38
Euros	**164**	468	577
	990	2,173	2,203
Currency bought forward – foreign currency			
Japanese yen	**3,501**	8,494	17,046
Australian Dollar	**9**	—	4
United States dollar	**45**	110	5
Euros	**6**	30	41

Cash flow hedges

Cross-currency interest rate swaps

On 31 March 2013, the Group was party to cross-currency interest rate swap contracts which are designated as cash flow hedges of the foreign exchange rate and interest rate risks associated with foreign currency-denominated borrowings listed below.

The borrowings being hedged are; two loans from the Japan Bank for International Cooperation (JBIC) for JPY18.8 billion and JPY4.6 billion respectively, the American Family Life Assurance Company of Columbus (AFLAC) Japan Branch for JPY15 billion, African Development Bank (AfDB) for USD410 million, Export Development Canada (EDC) for USD100 million, a US Dollar bond for USD750 million (TNUS16) and a USD Dollar bond for USD1,000 million (TNUS22).

Under the hedge for the first tranche of the JBIC loan, the Group pays 11.46 per cent. fixed (ZAR) and receives LIBOR +1.48 per cent. (JPY). Under the hedge for the second tranche of the JBIC loan, the Group pays 9.91 per cent. fixed (ZAR) and receives LIBOR +1.48 per cent. (JPY). Under the hedge for the AFLAC loan, the Group pays 12.22 per cent. fixed (ZAR) and receives 2.70 per cent. fixed (JPY). Under the hedge for the AfDB loan the Group pays 8.69 per cent. fixed (ZAR) and receives LIBOR + 1.75 per cent. USD). Under the hedge for the EDC loan the Group pays 7.47 per cent. fixed (ZAR) and receives LIBOR + 1.75 per cent. (USD). Under the hedge for the TNUS16 bond, the Group pays 10.4 per cent. fixed (ZAR) and receives 4.5 per cent. fixed (USD). The TNUS22 bond was hedged in two equal parts of USD500 million each. Under the hedge for the first tranche of the TNUS22 bond, the Group pays 8.98 per cent. fixed (ZAR) and receives 4 per cent. fixed (USD). Under the hedge for the second tranche of the TNUS22 bond, the Group pays 8.935 per cent. fixed (ZAR) and receives 4 per cent. fixed (US dollar).

21. Derivative financial instruments (continued)

The terms of the cross-currency interest rate swaps closely match those of the foreign currency-denominated borrowings they hedge and they were assessed as highly effective hedges. The amount of ineffectiveness recognised in profit and loss for the period with respect to these hedges was an R18 million loss (2012: R5 million gain; 2011: R7.8 million loss). The amount recycled to profit and loss to offset the hedged risks was R3,161 million credit (2012: R1,021 million credit; 2011: R277 million credit), included in finance costs.

The cash flows are projected to occur semi-annually in February and August until February 2021 on the JBIC hedge, semi-annually in May and November until November 2019 on the AFLAC hedge, semi-annually in February and August until February 2016 on the TNUS16 bond hedge, semi-annually in February and August until August 2018 on the AfDB hedge, semi-annually in May and November until November 2018 on the EDC hedge, semi-annually in July and January until July 2022 on the both tranches of the TNUS22 bond hedge.

The fair values of the cross-currency interest rate swaps at 31 March 2013 are as follows:

Cross-currency interest rate swaps: 452 3 821 JBIC:	**2013 R million**	**2012 R million**	**2011 R million**
R203 million, AFLAC: R71 million, AfDB:	**—**	—	—
R604 million, EDC: R12 million, TNUS16: R1,561 million	**3,821**	452	(457)
and TNUS22: R1,370 million.	**—**	—	—

The nominal amounts of the cross-currency interest rate swaps at 31 March 2013 are as follows:

	2013 R million	**2012 R million**	**2011 R million**
South African Rand	**20,901**	8,896	9,137
Japanese Yen	**38,408**	41,334	44,260
United States Dollar	**2,260**	750	750

Forward exchange contracts

The forward exchange contracts which were held on 31 March 2012 to hedge the acquisition of locomotives, spares and tools have all matured. No hedge ineffectiveness was recognised in profit or loss for the year (2012: R nil, 2011: R nil).

The cash flows have occurred in the period between 18 April 2011 and 18 June 2012. The fair values of the forward exchange contracts at 31 March 2013 are as follows:

	2013 R million	**2012 R million**	**2011 R million**
Currency bought forward – Japanese Yen profit / (loss)	**—**	14(8)	

The nominal values of these forward exchange contracts at 31 March 2013 are as follows:

	2013 R million	**2012 R million**	**2011 R million**
Currency bought forward – Japanese Yen	**—**	992	2,085

Refer to page F-22 of the Base Prospectus for details of the amounts recognised in other comprehensive income, amounts recycled to profit and loss or included in the initial cost of non financial assets or liabilities with respect to the above hedges.

22. Long term loans and advances

	2013 R million	2012 R million	2011 R million
Balance at the beginning of the year	**2**	11	37
Advances	**—**	2	4
Repayments	**(1)**	(1)	(1)
Reversal impairment/(impairment)	**3**	(10)	(29)
	4	2	11
Comprising			
Employee housing and other loans			
Balance at the beginning of the year	**—**	8	33
Advances	**—**	2	4
Repayments	**(1)**	—	—
Reversal of impairment/(impairment)	**3**	(10)	(29)
	2	—	8
Other loans and advances			
Balance at the beginning of the year	**2**	3	4
Repayments	**—**	(1)	(1)
	2	2	3

23. Inventories

	2013 R million	2012 R million	2011 R million
At weighted average cost			
Maintenance material	**2,207**	1,833	1,579
Consumables	**369**	195	259
Finished goods	**187**	153	36
Work in progress*	**264**	118	163
Provision for stock obsolescence**	**(330)**	(325)	(339)
	2,697	1,974	1,698
At net realisable value			
Maintenance material	**705**	602	556
Consumables	**37**	35	26
Finished goods	**—**	15	—
Provision for stock obsolescence	**(39)**	(35)	(21)
	703	617	561
Transferred to assets classified as held-for-sale	**—**	—	(2)
	3,400	2,591	2,257

* Included in work-in-progress are costs for construction contracts in progress.

** The increase in the provision for stock obsolescence is due to slow moving items assessed at the end of the current Financial Year. No items of inventory have been pledged as security as at 31 March 2013 (2012: R nil, 2011: R nil)

24. Trade and other receivables*

	2013 R million	2012 R million	2011 R million
	5,174	4,643	4,330
Trade receivables – net of allowances for credit losses	**4,923**	4,213	4,083
Amounts due from customers under construction contracts	**236**	407	236
Retention debtors	**15**	23	11
Prepayments and other amounts receivables	**1,072**	970	1,170
Short-term portion of loans and advances	**2**	2	3
	6,248	5,615	5,503

Reconciliation of allowance account for credit losses

	2013 R million	2012 R million	2011 R million
Low risk			
Opening balance	**(595)**	(352)	(207)
Raised	**(65)**	(264)	(211)
Utilised	**15**	21	66
Disposal	**1**	—	—
Closing balance	**(644)**	(595)	(352)
Medium risk			
Opening balance	**(32)**	(107)	(43)
Raised	**(49)**	—	(69)
Utilised	**1**	75	5
Disposal	**37**	—	—
Closing balance	**(43)**	(32)	(107)
High risk			
Opening balance	**(312)**	(201)	(206)
Raised	**(105)**	(111)	(19)
Utilised	**53**	—	24
Closing balance	**(364)**	(312)	(201)
Total provisions			
Opening balance	**(939)**	(660)	(456)
Raised	**(219)**	(375)	(299)
Utilised	**69**	96	95
Transferred to assets held for sale	**38**	—	—
Closing balance	**(1,051)**	(939)	(660)

*Included in trade receivables are amounts due from customers in the respect of construction contracts.

25. Cash and cash equivalents

	2013 R million	2012 R million	2011 R million
Cash and cash equivalents	**2,598**	1,189	10,876

26. Borrowings

	2013 R million	2012 R million	2011 R million
Long-term borrowings			
Total long-term borrowings the beginning of the year	**52,566**	50,452	42,736
Raised	**16,743**	10,868	16,390
Redeemed (1)	**—**	(6,000)	—
Foreign exchange movement	**3,010**	980	(158)
Amortisation of discount	**38**	30	32
Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings	**(5,587)**	(3,764)	(8,548)
	66,770	52,566	50,452
Rand denominated			
Bonds at nominal value	**35,728**	33,768	35,295
Unamortised discounts	**(687)**	(908)	(1,224)
Bonds at carrying value (1)	**35,041**	32,860	34,071
Other unsecured liabilities (3)	**8,436**	9,979	12,094
	43,477	42,839	46,165
Foreign currency denominated (2)			
Bonds at nominal value	**16,252**	5,762	5,149
Unamortised discounts	**(125)**	(26)	(28)
Bonds at carrying value	**16,127**	5,736	5,121
Other unsecured liabilities	**8,514**	3,857	3,733
	24,641	9,593	8,854
Secured loans and capitalised leases			
Rand denominated	**4,237**	3,896	3,981
Foreign currency denominated	**2**	2	—
Secured loans (4) and capitalised leases (5)	**4,239**	3,898	3,981
Total long-term borrowings	**72,357**	56,330	59,000
Current portion of long-term borrowings redeemable within one year transferred to short-term borrowings	**(5,587)**	(3,764)	(8,548)
	66,770	52,566	50,452

1) *Rand denominated secured Eurorand bonds bear interest between 10 per cent. and 13.5 per cent. and are repayable in 2028 and 2029 (refer to note 38). The Rand denominated unsecured and non-guaranteed bonds are redeemable between 14 November 2017 and 14 November 2027 and bear interest at a rate between 8.9 per cent. and 10.8 per cent.*
2) *Foreign currency bonds are denominated in United States Dollar, is redeemable between 10 February 2016 and 26 July 2022, and bears interest at a rate between 4.0 per cent. and 4.5 per cent. Foreign currency unsecured loans are denominated in Japanese Yen and United States Dollar, bears interest at rates between 1.74643 per cent. and 2.7 per cent., and is repayable between 1 August 2018 and 20 February 2021.*
3) *Rand denominated unsecured domestic loans bear interest at rates ranging between 5.531 per cent. and 10.95 per cent. These liabilities are repayable over periods between 14 December 2014 and 30 November 2024.*
4) *Rand denominated secured loans bear interest at rates ranging between 5.375 per cent. and 7.375 per cent. with floating rates linked to JIBAR. These liabilities are repayable on 20 December 2021.*
5) *Rand denominated capitalised finance lease liabilities bear interest at rates ranging between 11.00 per cent. and 16.93 per cent. with all rates fixed. These liabilities are repayable over periods between 2013 and 2027.*

26. Borrowings (continued)

	2013 R million	2012 R million	2011 R million
Short-term borrowings			
Current portion of long-term interest-bearing borrowings	**5,587**	3,764	8,548
Other short-term borrowings	**731**	1,802	1,030
	6,318	5,566	9,578

Other short-term borrowings relate to the market making portfolio and comprises the Group's position on bonds and other financial instruments.

The short-term borrowings bear interest at rates between 5.26 per cent. and 10.95 per cent., repayable between May 2013 and March 2014 and are not guaranteed.

27. Trade payables and accruals

	2013 R million	2012 R million	2011 R million
Trade payables	**3,150**	2,207	1,861
Accrued expenditure	**3,812**	3,089	2,926
Deposits received	**147**	58	55
Interest	**1,500**	1,390	1,379
Personnel costs	**470**	483	311
Public creditors	**592**	663	539
Revenue received in advance and deferred income	**296**	216	247
Leave pay	**1,034**	836	885
Incentive bonus	**717**	1,874	1,162
Other post-retirement and medical benefits	**106**	203	206
SARS- Value Added Taxation	**60**	132	162
Accruals	**8,734**	8,944	7,872
	11,884	11,151	9,733

Liabilities for trade and other amounts payable which are settled within normal terms are stated at amortised cost.

28. Construction contracts

	2013 R million	2012 R million	2011 R million
Contracts in progress at the statement of financial position date:			
Construction costs incurred plus recognised profits less losses to date	**981**	1,351	662
Less: progress billings	**(749)**	(944)	(382)
	232	407	280
Recognised and included in the financial statements:			
Income statement			
Contract revenue	**764**	967	393
Statement of financial position			
Amounts due from customers under construction contracts	**236**	407	236
Retention debtors	**15**	23	11

Contract revenue for coaches is recognised when the completed stage has been signed off as proof of quality satisfaction by the external customer.

29. Non-current assets classified as held-for-sale and discontinued operations

Discontinued operations

The loss from discontinued operations, including loss on disposal of discontinued operations and impairments comprises:

	2013 R million	2012 R million	2011 R million
Loss from discontinued operations (refer below)	—	—	(41)
Loss on disposal of discontinued operations, net of taxation	—	—	(29)
Impairments – Lower of carrying value and fair value less costs to sell, net of taxation	—	—	(1)
	—	—	(71)
Loss from discontinued operations			
Revenue	—	—	36
Net operating expenses excluding depreciation and amortisation	—	—	(77)
Loss from operations before depreciation and amortisation and items listed below	—	—	(41)
Depreciation and amortisation	—	—	—
Loss from operations before the items listed below	—	—	(41)
Impairment/(reversal of impairment) of assets	—	—	—
Fair value adjustments	—	—	—
Loss from operations before net finance costs	—	—	(41)
Finance costs	—	—	—
Finance income	—	—	—
Loss before taxation	—	—	(41)
Taxation	—	—	—
Net loss for the year after taxation	—	—	(41)

Assets classified as held-for-sale and liabilities directly associated with assets classified as held-for-sale

	2013 R million	2012 R million	2011 R million
Non-current assets classified as held-for-sale			
Property, plant and equipment	**158**	126	124
Investment properties	**3**	6	17
Other Investments	**114**	99	142
	275	231	283
Effect of the sale of disposal groups			
Non-current assets classified as held-for-sale			
Luxrail	—	—	76
Effect of intercompany eliminations and impairment of disposal groups	—	—	(67)
	—	—	9
Total assets transferred to non-current assets classified as held-for-sale	**275**	231	292

	2013 R million	2012 R million	2011 R million
Liabilities directly associated with assets classified as held-for-sale			
Trade payables and other payables	—	—	9
Effect of the sale of disposal groups			
Luxrail	—	—	9
Total liabilities transferred to liabilities directly associated with assets classified as held-for-sale	—	—	9

30. Share capital

	2013 R million	2012 R million	2011 R million
Authorised			
30,000,000,000 ordinary par value shares of R1 each	**30,000**	30,000	30,000
Issued			
12,660,986,310 ordinary par value shares of R1 each (2012: 12,660,986,310; 2011: 12,660,986,310)	**12,661**	12,661	12,661

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

Capital management

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

Based on the significant capital investment plan of the Company, as well as its revenue generating ability, the target debt to equity ratio will remain below the 50 per cent. limit that forms part of the Shareholders Compact with the Shareholder Representative (2013: actual 44.7 per cent.).

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

31. Employee benefits

	2013 R million	2012 R million	2011 R million
Balance at the beginning of the year	**2,003**	1,953	2,022
Income statement credit	**(98)**	(181)	(5)
Settlements during the year	**(253)**	(270)	(268)
Actuarial loss	**307**	501	204
	1,959	2,003	1,953
Comprising:			
Top Management Pension	**89**	84	77
Workmen's Compensation Act pensioners	**481**	433	373
SATS pensioners' post-retirement medical benefits	**832**	881	934
Transnet employees post-retirement medical benefits	**557**	605	569
	1,959	2,003	1,953

31. Employee benefits (continued)

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

	2013 R million	2012 R million	2011 R million
Other post-retirement and medical benefits			
Balance at the beginning of the year	**533**	579	540
Income statement charge	**70**	150	160
Utilised during the year	**(427)**	(196)	(121)
	176	533	579
Less: Short-term portion classified as current liabilities	**(106)**	(203)	(206)
	70	330	373
Leave pay			
Balance at the beginning of the year	**1,440**	1,390	1,139
Accruals made during the year	**764**	992	810
Utilised during the year	**(461)**	(942)	(559)
	1,743	1,440	1,390
Less: Short-term portion classified as current liabilities	**(1,034)**	(836)	(885)
	709	604	505
Incentive bonuses			
Balance at the beginning of the year	**2,259**	1,563	2,063
Accruals made during the year	**772**	2,112	1,699
Utilised during the year	**(1,935)**	(1,416)	(2,199)
	1,096	2,259	1,563
Less: Short-term portion classified as current liabilities	**(717)**	(1,874)	(1,162)
	379	385	401
Total employee benefits	**3,117**	3,322	3,232

Other post-retirement and medical benefits

Included in total employee benefits is an amount of R106 million (2012: R383 million, 2011: R579 million) for the restructuring of the SATS pensioners' medical subsidy and R70 million (2012: R150 million, 2011: R nil) relating to an ex gratia payment to disadvantaged Transnet Second Defined Benefit Fund and Transport Pension Fund: Transnet Sub-fund pensioners.

Leave Pay

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

Incentive bonuses

Accrual for incentive bonuses in terms of the incentive bonus scheme.

Post-retirement benefit obligations

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

31. Employee benefits (continued)

Pension benefits

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

With regard to the defined benefit funds, the expected return on plan assets has been calculated based on market expectations at the beginning of the period for returns over the entire life of the related obligation, except where settlements have occurred during the year. In these instances the return on assets is adjusted immediately before settlement. The estimated return is determined in conjunction with actuaries and market analysts based on the underlying asset base within each fund.

Transnet retirement fund

The fund is structured as a defined contribution fund and all employees of the Group are eligible members of the fund. There were 66,322 members at 31 March 2013 (2012: 62,326, 2011: 60,314). An actuarial valuation was performed as at 31 March 2012. The actuaries were satisfied with the status of the member's credit account then. The total contributions to this fund constitute member contributions of R946 million (2012: R814 million, 2011: R725 million) and employer contributions of R946 million (2012: R814 million, 2011: R735 million).

Transport pension fund: Transnet Sub-Fund

The fund is a defined benefit pension fund. The fund has been closed to new members since 1 December 2000. Members are current employees of Transnet who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date.

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

All active members and pensioners members relating to South African Airways (Pty) Limited and the South African Rail Commuter Corporation Limited have therefore been assigned to these new Sub-Funds. The Transport Pension Fund therefore comprises three independent and separate Sub-Funds, each with their own principal employer. An employer's liability to the Transport Pension Fund are limited to those attributable to its members, pensioners and dependant pensioners assigned to its Sub-Fund.

There were 5,044 members and pensioners at 31 March 2013 (2012: 5,172; 2011: 5,293). The fund gives members the option to transfer to the Transnet Retirement Fund twice a year. Approximately 15 members opted to transfer to the Transnet Retirement Fund in the current year (2012: 16; 2011: 35). The effect of this transfer is noted below.

31. Employee benefits (continued)

An actuarial valuation was done as at 31 March 2013 based on the projected unit credit method. The principal actuarial assumptions used are as follows:

	2013 R million	2012 R million	2011 R million
Discount rate (per cent.)	**7.19**	8.43	9.08
Salary increases			
– Inflation (per cent.)	**5.75**	5.91	5.99
– Promotional (per cent.)	**1.00**	1.00	0.25
Expected return on plan assets (per cent.)	**9.21**	9.21	10.23
Pension increases (per cent.)	**2.00**	2.00	2.00
The results of the actuarial valuation are as follows:			
Benefit liability			
Present value of obligation	**(3,487)**	(3,146)	(2,784)
Fair value of plan assets	**5,235**	4,834	4,769
Surplus	**1,748**	1,688	1,985
Unrecognised surplus	**(1,748)**	(1,688)	(1,985)
Net liability per the statement of financial position	**—**	—	—

The liability recognised for this fund relating the Company amounts to R nil (2012: R nil; 2011: R nil).

The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.

	2013 R million	2012 R million	2011 R million
Credit to the income statement			
Expected return on assets	**437**	480	436
Current service costs	**(21)**	(28)	(26)
Interest cost	**(260)**	(248)	(238)
Net credit recognised in the income statement	**156**	204	172
Actual return on plan assets	**683**	415	534
Actuarial loss recognised in statement of comprehensive income			
– Actuarial gain/(loss)	**(93)**	(428)	79
– Net surplus not recognised	**(60)**	297	(269)
– Bonus award to pensioners (actuarial loss)	**(17)**	(89)	—
Net actuarial loss recognised in the statement of comprehensive income	**(170)**	(220)	(190)

31. Employee benefits (continued)

	2013 R million	2012 R million	2011 R million
Cumulative actuarial losses recognised in other comprehensive income	**(1,737)**	(1,567)	(1,347)
Movements in the net asset recognised in the statement of financial position			
Opening net asset	**1,688**	1,985	1,716
Income as above	**156**	204	172
Actuarial (loss)/gain	**(93)**	(428)	79
Bonus award to pensioners (actuarial loss)	**(17)**	(89)	—
Contributions paid by employer	**14**	16	18
Surplus	**1,748**	1,688	1,985
Surplus not recognised	**(1,748)**	(1,688)	(1,985)
Closing net asset	**—**	—	—
Reconciliation of movement in benefit liability			
Opening benefit liability	**(3,146)**	(2,784)	(2,786)
Current service cost	**(21)**	(28)	(26)
Contributions by members	**(10)**	(11)	(13)
Interest cost	**(260)**	(248)	(238)
Actuarial gain/(loss)	**(339)**	(363)	(19)
Bonus award to pensioners (actuarial loss)	**(17)**	(89)	—
Benefits paid	**295**	372	233
	(3,498)	(3,151)	(2,849)
Transfer to the retirement fund	**11**	5	65
Closing benefit liability	**(3,487)**	(3,146)	(2,784)
Reconciliation of movement in fair value of plan assets			
Opening fair value of plan assets	**4,834**	4,769	4,502
Expected return	**437**	480	436
Actuarial gain/(loss)	**246**	(65)	98
Contributions by employer and members	**24**	27	31
Benefits paid	**(295)**	(372)	(233)
	5,246	4,839	4,834
Transfer to the retirement fund	**(11)**	(5)	(65)
Closing fair value of plan assets	**5,235**	4,834	4,769

Summary of actuarial valuation results for past periods:

	2013 R million	2012 R million	2011 R million	2010 R million	2009 R million
Present value of defined benefit obligation	**(3,487)**	(3,146)	(2,784)	(2,786)	(2,957)
Fair value of plan assets	**5,235**	4,834	4,769	4,502	3,658
Surplus	**1,748**	1,688	1,985	1,716	701
Asset not recognised	**(1,748)**	(1,688)	(1,985)	(1,716)	(701)
Net liability	**—**	—	—	—	—
Actuarial (loss)/gain recognised on defined benefit obligation	**(356)**	(452)	(19)	39	(63)
Actuarial gain/(loss) recognised on plan assets	**246**	(65)	98	897	(1,176)

The estimated contributions by both employer and members for the year beginning 1 April 2013 amount to R24 million (2012: R27 million, 2011: R31 million).

31. Employee benefits (continued)

	2013	2012	2011
The major category of plan assets as a per cent. of total plan assets are:			
Equity – Local and international (per cent.)	**63**	56	69
Property (per cent.)	**1**	5	5
Bonds (per cent.)	**33**	38	20
Cash (per cent.)	**3**	1	6
Total (per cent.)	**100**	100	100

Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of existing retired members and qualifying beneficiaries. As of the current Financial Year, the fund includes the spouses of black pensioners who retired from Transnet between 16 December 1974 and 1 April 1986 (previously reported as the Black Widows Pension Fund). There were 24,774 members at 31 March 2013 (2012: 26,865, 2011: 29,100). This excludes widows and children of pensioners, as well as the black widows. The all-inclusive membership is 65,653 at 31 March 2013 (2012: 68,727; 2011: 71,865). The entire obligation relates to Transnet SOC Ltd.

The actuarial valuation was based on the projected unit credit method. The principal actuarial assumptions used are as follows:

	2013	2012	2011
Discount rate (per cent.)	**6.60**	8.08	8.94
Expected return on assets (per cent.)	**7.31**	7.31	8.13
Inflation (per cent.)	**5.80**	6.23	6.21
Pension increases (per cent.)	**2.00**	2.00	2.00

The results of the actuarial valuation are as follows:

	2013 R million	2012 R million	2011 R million
Benefit liability			
Present value of obligation	**(16,168)**	(15,658)	(15,666)
Fair value of plan assets	**18,425**	18,572	18,908
Surplus	**2,257**	2,914	3,242
Unrecognised surplus	**(2,257)**	(2,914)	(3,242)
Net liability per the statement of financial position	**—**	—	—
Credit/(charge) to the income statement			
Expected return on plan assets	**1,290**	1,436	1,319
Interest cost	**(1,189)**	(1,289)	(1,312)
	101	147	7
Actual return on plan assets	**2,125**	2,017	1,899
Total actuarial loss recognised in other comprehensive income for the year	**(101)**	(147)	(7)
– Actuarial (loss)/gain	**(597)**	63	384
– Net asset not recognised	**657**	328	(32)
– Bonus award to pensioners (actuarial loss)	**(161)**	(538)	(359)
Cumulative actuarial gains recognised in other comprehensive income	**4,300**	4,401	4,548
Movements in the net asset recognised in the statement of financial position			
Opening net asset	**2,914**	3,242	3,210
Loss as above	**101**	147	7
Actuarial gain recognised in other comprehensive income	**(597)**	63	384
Bonus award to pensioners (actuarial loss)	**(161)**	(538)	(359)
Surplus	**2,257**	2,914	3,242
Surplus not recognised	**(2,257)**	(2,914)	(3,242)
Net asset per statement of financial position	**—**	—	—

The surplus was not recognised as the rules of the fund do not provide for the surpluses to be distributed.

31. Employee benefits (continued)

	2013 R million	2012 R million	2011 R million
Reconciliation of movement in benefit liability			
Opening benefit liability	**(15,658)**	(15,666)	(16,469)
Interest cost	**(1,189)**	(1,289)	(1,312)
Actuarial loss	**(1,432)**	(518)	(196)
Bonus award to pensioners (actuarial loss)	**(161)**	(538)	(359)
Benefits paid	**2,272**	2,353	2,670
Closing benefit liability	**(16,168)**	(15,658)	(15,666)
Reconciliation of movement in fair value of plan assets			
Opening fair value of plan assets	**18,572**	18,908	19,679
Expected return	**1,290**	1,436	1,319
Actuarial gain	**835**	581	580
Benefits paid	**(2,272)**	(2,353)	(2,670)*
Closing fair value of plan assets	**18,425**	18,572	18,908
Major categories of plan assets as a percentage of total plan assets:			
Equity (per cent.)	**25**	22	21
Property (per cent.)	**2**	2	2
Bonds (per cent.)	**72**	29	27
Cash and net current assets (per cent.)	**1**	47	50
Total assets at market value (per cent.)	**100**	100	100

Summary of actuarial valuation results for past periods:

	2013 R million	2012 R million	2011 R million	2010 R million	2009 R million	2008 R million
Present value of defined benefit obligation	**(16,168)**	(15,658)	(15,666)	(16,469)	(17,550)	(17,194)
Fair value of plan assets	**18,425**	18,572	18,908	19,679	20,316	19,966
Surplus	**2,257**	2,914	3,242	3,210	2,766	2,772
Asset not recognised	**(2,257)**	(2,914)	(3,242)	(3,210)	(2,766)	(2,772)
Net liability	**—**	—	—	—	—	—
Actuarial gain/(loss) recognised on defined benefit obligation	**(1,593)**	(1,056)	(555)	256	(1,126)	1,513
Actuarial gain/(loss) recognised on plan assets	**835**	581	580	184	912	(1,308)

Top Management Pensions and Workmen's Compensation Act pensioners

The Top Management Pensions are additional benefits to top-up pensions received to eliminate the effects of any early retirement and resignation penalties applied under the Group's existing pension fund schemes to management appointed prior to 1 April 1999. There were 397 members at 31 March 2013 (2012: 397, 2011: 400). The entire obligation relates to Transnet SOC Ltd. The Workmen's Compensation Act Fund benefit relates to the pension benefits that the Company pays to current and former employees who were disabled whilst in service prior to the corporatisation of Transnet in 1990. There were 1,302 members at 31 March 2013 (2012: 1,364, 2011: 1,419).

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

31. Employee benefits (continued)

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

Top Management Pension

The principal assumptions in determining the benefits are as follows:

	2013	**2012**	**2011**
Discount rate (per cent.)	**6.40**	7.76	8.94
Salary increases (per cent.)			
Inflation (per cent.)	**5.82**	6.21	6.21
Promotional (per cent.)	**1.00**	1.00	0.17
Pension increase (per cent.)	**2.00**	2.00	2.00

	2013 R million	**2012 R million**	**2011 R million**
Benefit liability			
Present value of obligations	**(89)**	(84)	(77)
Liability recognised in the statement of financial position	**(89)**	(84)	(77)
Interest charge to the income statement			
Interest cost	**(6)**	(7)	(7)
Actuarial gain/(loss) recognised in the statement of comprehensive income	**(8)**	(9)	1
The cumulative actuarial gains recognised in equity	**21**	29	38
Reconciliation movement in benefit liability			
Opening benefit liability	**(84)**	(77)	(80)
Expense as above	**(6)**	(7)	(7)
Actuarial gain / (loss)	**(8)**	(9)	1
Contribution	**9**	9	9
Benefit liability at year-end	**(89)**	(84)	(77)

Summary of actuarial valuation results for past periods:

	2013 R million	**2012 R million**	**2011 R million**	**2010 R million**	**2009 R million**	**2008 R million**
Present value of defined benefit obligation	(89)	(84)	(77)	(80)	(84)	(89)
Deficit	(89)	(84)	(77)	(80)	(84)	(89)
Actuarial gain / (loss) recognised on defined benefit obligation	(8)	(9)	1	2	3	27

The estimated contributions (based on current year contributions) for the year beginning 1 April 2013 amounted to R9 million (2012: R9 million, 2011: R9 million).

31. Employee benefits (continued)

Workmen's Compensation Act pensioners

Principal assumptions in determining the benefits are as follows:

	2013	2012	2011
Discount rate (per cent.)	6.93	8.33	9.08
Pension increase (per cent.)	5.61	5.86	5.99
Inflation rate (per cent.)	5.61	5.86	5.99

	2013 R million	2012 R million	2011 R million
Benefit liability			
Present value of obligations	(481)	(433)	(373)
Liability recognised in the statement of financial position	(481)	(433)	(373)
Interest charge to the income statement			
Interest cost	(35)	(32)	(30)
Actuarial loss recognised in the statement of comprehensive income	(62)	(72)	(22)
The cumulative actuarial losses recognised in equity	(295)	(233)	(161)
Reconciliation movement in benefit liability			
Opening benefit liability	(433)	(373)	(354)
Interest cost	(35)	(32)	(30)
Actuarial loss	(62)	(72)	(22)
Benefits paid	49	44	33
Benefit liability at year-end	(481)	(433)	(373)

Summary of actuarial valuation results for past periods:

	2013 R million	2012 R million	2011 R million	2010 R million	2009 R million	2008 R million
Present value of defined benefit obligation	**(481)**	(433)	(373)	(354)	(368)	(280)
Deficit	**(481)**	(433)	(373)	(354)	(368)	(280)
Actuarial gain / (loss) recognised on defined benefit obligation	**(62)**	(72)	(22)	16	(93)	(43)

The estimated contributions (based on current year contribution) for the year beginning 1 April 2013 amount to R49 million (2012: R44 million, 2011: R33 million).

HIV/Aids benefits

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

Post-retirement medical benefits

SATS Pensioners' post-retirement medical benefits

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

Transnet employee's post-retirement medical benefits

This includes the current and past employees of Transnet who are members of Transnet accredited medical schemes, namely Transnet's in-house medical aid, Transmed Medical Fund, Bonitas, Bestmed, Discovery Health and Sizwe. Membership is voluntary.

31. Employee benefits (continued)

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

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

Analysis of benefit expense

The following summarises the components of the net benefit expense recognised in both the statement of comprehensive income and statement of financial position as at 31 March 2013 for both SATS pensioners and Transnet employees. The projected unit credit method has been used for the purposes of determining the actuarial valuation for both the funds.

SATS pensioners

	2013	**2012**	**2011**
Closing benefit liability based on changes in discount rate (per cent.)	**6.73**	8.33	9.08

	2013 R million	**2012 R million**	**2011 R million**
Benefit liability			
Present value of obligations	**(832)**	(881)	(934)
Liabilities recognised in the statement of financial position	**(832)**	(881)	(934)
Charge to the income statement			
Interest cost	**(56)**	(69)	(79)
Actuarial (loss)/gain recognised in the statement of comprehensive income	**(41)**	(49)	4
Cumulative actuarial gains recognised in equity	**(173)**	(132)	(83)
Reconciliation movement in benefit liability			
Opening benefit liability	**(881)**	(934)	(1,026)
Expense as above	**(56)**	(69)	(79)
Company contributions	**146**	171	167
Actuarial (loss)/gain	**(41)**	(49)	4
Closing benefit liability	**(832)**	(881)	(934)

The medical inflation has no impact on the aggregate current service cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 6.73 per cent. (2012: 8.33 per cent., 2011: 9.08 per cent.) on the present value of the obligation is as follows:

	2013 R million	**2012 R million**	**2011 R million**
Closing benefit liability based on changes in discount rate:			
5.73 per cent. (2012: 7.33 per cent., 2011: 8.08 per cent.)	**(879)**	(926)	(981)
7.73 per cent. (2012: 9.33 per cent., 2011: 10.08 per cent.)	**(790)**	(840)	(892)

Summary of actuarial valuation results for past periods:

	2013 R million	**2012 R million**	**2011 R million**	**2010 R million**	**2009 R million**	**2008 R million**
Benefit liability	**(832)**	(881)	(934)	(1,026)	(1,240)	(1,223)
Deficit	**(832)**	(881)	(934)	(1,026)	(1,240)	(1,223)
Actuarial gain /(loss) recognised on medical benefit obligation	**(41)**	(49)	4	112	(117)	204

The estimated contribution (based on current year contribution) for the year beginning 1 April 2013 is R146 million (2012: R157 million, 2011: R167 million).

31. Employee benefits (continued)

Transnet employees

	2013 R million	2012 R million	2011 R million
Closing benefit liability based on changes in discount rate (per cent.)	**6.73**	8.33	9.08
Benefit liability			
Present value of obligations	**(557)**	(605)	(569)
Liabilities recognised in the statement of financial position	**(557)**	(605)	(569)
Charge to the income statement			
Current service cost	**(13)**	(11)	(10)
Interest cost	**(49)**	(51)	(48)
	(62)	(62)	(58)
Actuarial gain/(loss) recognised in the statement of comprehensive income	**75**	(4)	10
Cumulative actuarial gains recognised in equity	**334**	259	263
Reconciliation movement in benefit liability			
Opening benefit liability	**(605)**	(569)	(562)
Expense as above	**(62)**	(62)	(58)
Member and Company contributions	**35**	30	41
Actuarial (loss)/gain	**75**	(4)	10
Closing benefit liability	**(557)**	(605)	(569)
Net benefit liability	**(557)**	(605)	(569)
Continuing operations	**(557)**	(605)	(569)

Transnet subsidies members at a flat contribution of R213 per month per member family. The medical inflation has no impact on the aggregate current service cost and interest cost and the benefit liability. However, the assumed discount rate has an impact. The sensitivity of the obligation to a change in the assumed discount rate of 6.73 per cent. (2012: 8.33 per cent., 2011: 9.08 per cent.) on the present value of the obligation is as follows:

	2013 R million	2012 R million	2011 R million
Closing benefit liability based on changes in discount rate:			
5.73 per cent. (2012: 7.33 per cent., 2011: 8.08 per cent.)	**(618)**	(662)	(625)
7.73 per cent. (2012: 9.33 per cent., 2011: 10.08 per cent.)	**(506)**	(550)	(522)

Summary of actuarial valuation results for past periods:

	2013 R million	2012 R million	2011 R million	2010 R million	2009 R million	2008 R million
Benefit liability	**(557)**	(605)	(569)	(562)	(632)	(592)
Deficit	**(557)**	(605)	(569)	(562)	(632)	(592)
Actuarial gain /(loss) recognised on medical benefit obligation	**75**	(4)	10	88	(20)	145

The estimated contribution (based on current year contribution) for the year beginning 1 April 2013 is R35 million (2012: R30 million, 2011: R41 million).

32. Provisions

	2013 R million	2012 R million	2011 R million
Comprising			
Total provisions at the beginning of the year	**1,626**	1,174	1,054
Provisions raised during the year and unwinding of discounts	**1,719**	1,750	1,377
Provisions utilised	**(1,386)**	(1,036)	(1,279)
Increase/(decrease) in short-term provisions classified as current liabilities	**(57)**	(262)	22
	1,902	1,626	1,174
Third-party claims			
Balance at the beginning of the year	**159**	174	135
Provisions made during the year	**201**	365	215
Utilised during the year	**(171)**	(380)	(176)
	189	159	174
Customer claims			
Balance at the beginning of the year	**40**	26	26
Provisions made during the year	**4**	17	—
Utilised during the year	**—**	(3)	—
	44	40	26
Onerous contracts			
Balance at the beginning of the year	**—**	—	38
Utilised during the year	**—**	—	(38)
	—	—	—
Decommissioning and environmental liabilities			
Balance at the beginning of the year	**1,828**	1,267	1,087
Provisions made during the year and unwinding of discounts	**350**	681	239
	2013 R million	2012 R million	2011 R million
Utilities during the year	**(141)**	(120)	(59)
	2,037	1,828	1,267
Restructuring			
Balance at the beginning of the year	**29**	30	45
Utilised during the year	**—**	(1)	(15)
	29	29	30
Other			
Balance at the beginning of the year	**504**	349	417
Provisions made during the year	**1,164**	687	595
Utilised during the year	**(1,074)**	(532)	(663)
	594	504	349
Total provisions	**2,893**	2,560	1,846
Less: Short-term provisions classified as current liabilities			
Third party claims	**179**	149	174
Customer claims	**44**	40	26
Decommissioning liability and environmental liabilities	**174**	241	124
Other	**594**	504	348
Short term provisions	**991**	934	672
Total long-term provisions	**1,902**	1,626	1,174

Various assumptions are applied in arriving at the carrying value of provisions that are recognised in terms of the requirements of IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

32. Provisions (continued)

Management further relies on input from the Group's lawyers in assessing the probability on matters of a contingent nature. Contingent liabilities are disclosed in note 36.

Third-party claims

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

Customer claims

This provision represents claims made by customers arising from non-performance on contracts or damage to goods in transit. Settlement of claims are expected in the following year.

Decommissioning and environmental liabilities

This is a provisions for the dismantling and removal of an asset as a result of the requirement to restore the site on which the asset is located. The provision has been computed by discounting future cash flows. In accordance with the Group's environmental policy and applicable legal requirements, a provision for environmental rehabilitation in respect of clean-up costs is recognised when it meets the recognition requirements for provisions. The provision includes the estimated rehabilitation costs for the historical contamination caused by asbestos, as well as costs for the rehabilitation caused by ferromanganese, manganese, mixed soil (including chrome, sulphur and manganese), fuel and rubble.

Environmental provisions for the remediation of soil contamination areas has been raised. These include provisions for the removal of asbestos, ferromanganese, manganese, mixed soil(including chrome, sulphur and manganese) fuel and rubble. These obligations arise from environmental legislation requiring the Group to remove waste material and remediate the land. Transnet engaged external consultants to perform risk assessments on identified areas of contamination and the Group's related rehabilitation obligation. A number of factors were considered in determining the obligation, which included:

a. The extent of the contamination.

b. The cost per ton/per square metre/per running kilometre line of removal and disposal of the contamination.

c. The costs of rehabilitation of the identified areas of contamination.

d. The costs for the removal and replacement of asbestos roof sheeting and cladding on buildings.

Restructuring

Provision for restructuring costs in terms of strategic plans.

33. Segmental Analysis

Transnet's reportable segments represent the core businesses of Transnet for which information is reported internally to the chief operating decision maker (the "CODM") for purposes of allocating resources and assessing performance.

These businesses are managed separately and each of the segment managers' report directly to the CODM. Discrete financial information is available for each operating segment identified.

The services offered by each of these segments differ, and they do not have similar economic characteristics, customers or methods to provide their services.

The following are the services from which each reportable segment derives its revenue:

- Transnet Freight Rail: Operates freight trains and is focused on transporting bulk and containerized freight. Its business lines comprise the coal and iron ore export channels and the general freight business.

33. Segmental Analysis (continued)

- Transnet Engineering: Consists of nine product—focused business units which provide services ranging from refurbishment, conversion and upgrades, to the manufacturing of rail related rolling stock mainly for Passenger Rail Agency of South Africa.
- Transnet National Ports Authority: Responsible for the safe, efficient and effective economic functioning of the national ports system which it manages in a landlord capacity. Transnet National Ports Authority is also the provider of port infrastructure and marine services at all eight fully operational commercial ports in South Africa.
- Transnet Port Terminals: Manages 16 cargo terminal operations across seven South African Ports. It provides cargo handling services for container, dry bulk, break bulk, and automotive cargoes.
- Transnet Pipelines: Transports a range of petroleum products and gas through 3 800 km of underground pipelines traversing five provinces.

Measurement

The accounting policies of the operating segments (including those applied to intersegment transactions) are the same as those described in the summary of significant accounting policies in pages F-9 to F31, hence there are no differences in the measurement of profit or loss, assets and liabilities by the reportable segments and Transnet. There have been no changes in the measurement of profit and loss from the previous reporting period.

Transnet conducts intersegment sales transactions at arms-length, and intersegment transfers of property, plant and equipment at net book value.

In terms of geographical split, South Africa accounts for 100 per cent. of the Transnet Group's revenue.

Revenues from one customer of the Transnet Freight Rail operating segment represents approximately 10 per cent. (2012: 9 per cent., 2011: 5 per cent.) of the Group's total revenue.

33. Segmental Analysis (continued)

Segmental information#
For the year ended 31 March 2013

	Freight Rail R million	Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments R million	Elimination of intersegment transactions R million	Total Transnet R million
External revenues*	30,608	1,371	7,410	7,421	2,823	49,633	561	—	50,194
Internal revenues	1,189	11,692	918	3	6	13,808	2,621	(16,429)	—
Total revenue	31,797	13,063	8,328	7,424	2,829	63,441	3,182	(16,429)	50,194
Energy costs	(4,121)	(228)	(353)	(439)	(192)	(5,333)	(137)	—	(5,470)
Maintenance	(1,294)	(309)	(276)	(282)	(49)	(2,210)	(186)	2,142	(254)
Materials	(1,005)	(5,916)	(75)	(350)	(10)	(7,356)	(20)	4,784	(2,592)
Personnel cost	(9,765)	(4,424)	(1,472)	(2,714)	(275)	(18,650)	(1,201)	5,344	(14,507)
Other costs	(2,650)	(712)	(566)	(1,643)	(139)	(5,710)	(3,673)	3,063	(6,320)
Adjusted EBITDA	12,962	1,474	5,586	1,996	2,164	24,182	(2,035)	(1,096)	21,051
Depreciation and amortisation	(5,852)	(193)	(1,266)	(1,416)	(547)	(9,274)	(156)	153	(9,277)
Fair value adjustments and post retirement benefit obligations	(62)	(6)	108	(20)	(46)	(26)	(312)	—	(338)
Dividends received and income from associates	—	—	—	—	—	—	24	—	24
Finance cost	(2,031)	(252)	(1,728)	(374)	(302)	(4,687)	(7,562)	6,704	(5,545)
Finance income	53	(1)	5	32	4	93	7,016	(6,704)	405
Profit before taxation	5,070	1,022	2,705	218	1,273	10,288	(3,025)	(943)	6,320
Total assets##	80,011	10,782	66,107	18,377	28,098	203,375	13,040	(12,794)	203,621
Total liabilities	48,606	6,954	38,317	10,477	16,704	121,058	5,700	(7,816)	118,942
CAPEX***	18,277	1,315	1,698	2,208	2,799	26,297	2,225	(1,051)	27,471

* *Revenues from segments below the quantitative thresholds are attributable to two operating segments of Transnet. These segments include Transnet Property that manages internal and external lease of the commercial and residential property and Transnet Capital Projects.*

** *Other adjustments include the Corporate Centre functions.*

*** *Excludes capitalised borrowings costs, includes capitalised finance lease and capitalised decommisioning liabilities.*

\# *A reconciliation between total reportable segments measure of profit or loss and the group profit or loss before taxation and discontinued operations is included on the face of the income statement.*

\#\# *Excludes assets held-for-sale.*

33. Segmental Analysis (continued)

Segmental information
For the year ended 31 March 2012

	Freight Rail R million	Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments R million	Elimination of intersegment transactions R million	Total Transnet R million
External revenues*	27,371	1,477	7,423	7,053	2,093	45,417	483	—	45,900
Internal revenues	287	9,789	834	2	3	10,915	3,625	(14,540)	—
Total revenue	27,658	11,266	8,257	7,055	2,096	56,332	4,108	(14,540)	45,900
Energy costs	(3,252)	(198)	(274)	(379)	(154)	(4,257)	(189)	—	(4,446)
Maintenance	(3,438)	(233)	(275)	(248)	(44)	(4,238)	(121)	3,928	(431)
Materials	(459)	(4,657)	(67)	(316)	(12)	(5,511)	(368)	3,572	(2,307)
Personnel cost	(7,488)	(4,514)	(1,440)	(2,519)	(266)	(16,227)	(2,082)	4,246	(14,063)
Other costs	(2,480)	(622)	(448)	(1,382)	(118)	(5,050)	(2,562)	1,841	(5,771)
Adjusted EBITDA	10,541	1,042	5,753)	2,211	1,502	21,049	(1,214)	(953)	18,882
Depreciation and amortisation	(5,368)	(169)	(1,248)	(1,133)	(383)	(8,301)	(187)	133	(8,355)
Fair value adjustments, impairments and post retirement benefit obligations	(51)	(19)	255	2	13	200	(713)	—	(513)
Dividends received and income from associates	—	—	—	—	—	—	(6)	—	(6)
Finance cost	(1,613)	(184)	(1,433)	(362)	148	(3,444)	(7,142)	6,331	(4,255)
Finance income	44	18	6	47	2	117	6,702	(6,331)	488
Profit before taxation	3,553	688	3,333	765	1,282	9,621	(2,560)	(820)	6,241
Total assets	65,851	8,400	64,313	13,504	24,760	176,828	10,639	(9,693)	177,774
Total liabilities	38,712	5,179	33,598	7,084	14,674	99,247	4,988	(5,651)	98,584
CAPEX	14,792	722	1,749	1,472	4,507	23,242	1	(984)	22,259

* *Revenues from segments below the quantitative thresholds are attributable to two operating segments of the Group. These segments include Transnet Property that manages internal commercial and residential property and Transnet Capital Projects.*

33. Segmental Analysis (continued)

Segmental information
For the year ended 31 March 2011

	Freight Rail R million	Engineering R million	National Ports Authority R million	Port Terminals R million	Pipelines R million	Total for reportable segments R million	All other segments R million	Elimination of intersegment transactions R million	Total Transnet R million
External revenues*	22,310	661	7,343	6,349	1,128	37,791	161	—	37,952
Internal revenues	297	8,665	718	2	1	9,683	2,680	(12,363)	—
Total revenue	22,607	9,326	8,061	6,351	1,129	47,474	2,841	(12,363)	37,952
Energy costs	(2,533)	(146)	(215)	(273)	(56)	(3,223)	(161)	—	(3,384)
Maintenance	(2,949)	(145)	(254)	(208)	(40)	(3,596)	(192)	3,364	(424)
Materials	(436)	(3,630)	(63)	(257)	(11)	(4,397)	(238)	3,059	(1,576)
Personnel cost	(6,555)	(3,719)	(1,180)	(2,048)	(217)	(13,719)	(1,758)	3,637	(11,840)
Other costs	(1,990)	(535)	(483)	(1,377)	(108)	(4,493)	(2,059)	1,587	(4,965)
Adjusted EBITDA	8,144	1,151	5,866	2,188	697	18,046	(1,567)	(716)	15,763
Depreciation and amortisation	(4,602)	(171)	(997)	(998)	(330)	(7,098)	(176)	90	(7,184)
Fair value adjustments, impairments and post retirement benefit obligations	(181)	(12)	355	(106)	(10)	46	(113)	—	(67)
Dividends received and income from associates	12	—	—	—	—	12	54	(8)	58
Finance cost	(1,493)	(213)	(1,236)	(417)	—	(3,359)	(6,707)	(6,627)	(3,439)
Finance income	45	29	2	61	118	255	6,933	6,627	561
Profit before taxation	1,925	784	3,990	728	475	7,902	1,576	(634)	5,692
Total assets	55,466	6,944	60,956	12,856	19,355	155,577	19,314	8,113	166,778
Total liabilities	33,925	3,802	29,850	6,637	13,530	87,744	10,684	5,033	93,395
CAPEX	12,542	532	2,031	866	6,077	22,048	177	(721)	21,504

* *Revenues from segments below the quantitative thresholds are attributable to two operating segments of the Group. These segments include Transnet Property that manages internal commercial and residential property and Transnet Capital Projects.*

34. Related party transactions

The Transnet Group is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). It therefore has a significant number of related parties including other State-owned entities, Government Departments and all other entities within the national sphere of Government. The Group has utilised the database maintained by the National Treasury to identify related parties. A list of all related parties is available at the National Treasury website at www.treasury.gov.za or at the Company's registered office.

In addition, the Company has a related party relationship with its subsidiaries. The Group and Company have related party relationships with its associates and with its directors and senior executives (key management).

Unless otherwise disclosed, all transactions with the above related parties are concluded on an arm's length basis.

Furthermore, neither the Group nor any of its related parties is obligated to procure from or render services to their related parties.

Transactions with related entities

Services rendered to related parties comprise principally transportation services. Services purchased from related parties comprised principally energy, telecommunications, information technology and property related services.

During the year the Group completed the acquisition of the Durban International Airport site from ACSA for R1,850 million, of which R1,200 million was paid in the 2012 Financial Year.

The following is a summary of transactions with related parties during the year and balances due at year-end according to Transnet's records:

	2013 R million	**2012 R million**	**2011 R million**
Services rendered			
Major public enterprises	**902**	1,601	1,337
Other public enterprises	**1,616**	1,548	1,485
National Government business enterprises	**1,348**	1,608	1,087
Associates	**21**	42	36
	3,887	4,799	3,945
Services received			
Major public enterprises	**1,987**	2,876	1,314
Other public enterprises	**417**	380	295
National Government business enterprises	**705**	1,249	871
Associates	**—**	1	1
	3,109	4,506	2,481
Amount due from/(to)			
Major public enterprises	**314**	1,101	(3)
Other public enterprises	**73**	64	27
National Government business enterprises[(1)]	**(1,962)**	(2,315)	(5,197)
Associates	**—**	3	2
	(1,575)	(1,147)	(5,171)

During the year the Group expensed R298 million (2012: R525 million, 2011: R468 million) in relation to provisions and write-offs of bad debts on related parties and at year-end the Group had a provision of R968 million (2012: R670 million, 2011: R349 million) against bad debts in relation to related parties.

Transactions with key management personnel

Loans to key management are included in "Long-term loans and advances".

34. Related party transactions (continued)

Details of key management compensation are set out below.

None of key management has or had significant influence in any entity with whom the Group had significant transactions during the year.

Executive remuneration—guaranteed

Name	Salary *R thousand*	Post-retirement benefit fund contributions *R thousand*	Other contributions *R thousand*	Other payments *R thousand*	Total 2013 *R thousand*	Total 2012 *R thousand*	Total 2011 *R thousand*
B Molefe (1)(2)	5,494	504	—	6	**6,004**	6,000	643
C F Wells (3)	—	—	—	—	**—**	—	4,596
V Dunjwa (4)	848	78	—	199	**1,125**	2,780	2,617
S Gama	4,137	321	—	79	**4,537**	4,459	10,129
M Gregg-MacDonald	2,575	274	—	24	**2,873**	2,925	2,622
V Kahla (5)	—	—	—	—	**—**	—	2,911
P Maharaj (5)	—	—	—	—	**—**	664	3,567
C Möller	2,778	241	26	2	**3,047**	2,993	2,852
T Morwe	3,296	241	6	151	**3,694**	4,136	3,507
M Moses (4)	1,360	69	8	262	**1,699**	3,451	3,451
K Phihlela	3,060	223	—	52	**3,335**	3,284	3,320
Z Stephen (5)	—	—	—	—	**—**	6,940	754
A Singh (1)	3,231	296	—	2	**3,529**	2,264	2,152
KXT Socikwa	3,318	331	—	127	**3,776**	4,218	3,306
R Vallihu	3,264	281	—	8	**3,553**	3,545	3,344
EAN Sishi	2,536	242	—	2	**2,780**	695	—
DC Moephuli (2)	407	43	—	—	**450**	—	—
S Pillay (2)	961	88	—	19	**1068**	—	—
NJ Mabandla (6)	1,807	192	—	1	**2,000**	—	—
RE Lepule (6)	1,674	178	—	1	**1,853**	—	—
Total	40,746	3,602	40	935	**45,323**	48,354	49,771

(1) Group Executive who is a member of the Board.
(2) Appointed during prior year, remuneration pro-rated in the prior year.
(3) Resigned from the Board on 15 December 2010, but remained with Company until 31 March 2011.
(4) Service terminated during the current year.
(5) Resigned in the prior year.
(6) Employed during the year.

The following executives received an acting allowance during the 2013, 2012 and 2011 Financial Years in addition to their guaranteed remuneration.

Name	Total 2013 *R thousand*	2012 *R thousand*	2011 *R thousand*
M Gregg-MacDonald*	**—**	—	376
ME Mkhwanazi***	**—**	—	833
T Morwe*	**—**	—	500
A Singh^	**422**	1,689	1,544
KXT Socikwa*	**—**	—	461
CF Wells**	**—**	—	608
Total	**422**	1,689	4,322

* *Confirmed into their positions during the year and acting allowances were terminated.*
** *Acted as Group Chief Executive during the prior financial year.*

34. Related party transactions (continued)

*** *The Board delegated the powers, duties and authority of the Group Chief Executive to the Chairman of the Board with effect from 16 December 2010 until 2 March 2011.*

^ *Confirmed into his position during the Financial Year 2013 and acting allowances were terminated.*

Executive remuneration—non-guaranteed: Performance bonus (STI)

The performance bonuses (excluded from guaranteed remuneration) reflected below are according to the principles of the approved bonus scheme for 2013 and will be paid during the 2014 Financial Year.

Name	Long-term incentive *R thousand*	Short-term incentive *R thousand*	Total 2013 *R thousand*	2012 *R thousand*	2011 *R thousand*
B Molefe (1)(2)	—	1,218	**1,218**	6,473	—
CF Wells (3)	—	—	**—**	—	11,671
V Dunjwa (5)	—	—	**—**	5,102	3,961
S Gama	3,583	928	**4,511**	8,305	2,510
M Gregg-MacDonald	2,349	607	**2,956**	4,892	3,753
P Maharaj (4)	—	—	**—**	—	6,317
C Möller	2,592	629	**3,221**	5,151	4,873
T Morwe	3,079	738	**3,817**	5,615	5,388
M Moses (5)	—	—	**—**	7,740	1,305
K Phihlela	2,771	667	**3,438**	5,759	5,103
Z Stephen (6)	—	—	**—**	4,649	2,380
A Singh (1)	1,942	802	**2,744**	5,957	4,495
K X T Socikwa	2,884	741	**3,625**	6,675	6,107
R Vallihu	3,041	720	**3,761**	6,841	5,894
DC Moephuli	1,927	497	**2,424**	—	—
S Pillay	1,467	375	**1,842**	—	—
E A N Sishi	—	564	**564**		
NJ Mabandla (7)	—	446	**446**	—	—
RE Lepule (7)	—	319	**319**	—	—
Total	25,635	9,251	**34,886**	73,159	63,757

(1) Group Executive who is a member of the Board.
(2) Appointed during prior year, remuneration pro-rated in the prior year.
(3) Resigned from the Board on 15 December 2010, but remained with Company until 31 March 2011.
(4) Resigned during the current year.
(5) Service during the year.
(6) Resigned in the prior year.
(7) Employed during the year.

Non-executive Directors

Non-executive Directors are appointed by the Shareholder for a three-year term. The Articles of Association of the Company, however, require that the Directors be submitted for re-election for each of the three years at the Company's Annual General Meeting. Among the issues considered by the Shareholder prior to re-election is the individual Director's performance.

The Shareholder Representative approves, in advance, the fees payable to non-executive Directors. Fees paid to non-executive Directors vary based on their appointments to the various committees of the Transnet Board.

34. Related party transactions (continued)

The fee structure for non-executive Directors was approved during 2005 and has not been adjusted since that date. The non-executive directors are paid and annual retainer as well as an additional retainer fee for committee membership.

Name of Board members	Salary *R thousand*	Other payments *R thousand*	Total 2013 *R thousand*	Total 2012 *R thousand*	Total 2011 *R thousand*
ME Mkwanazi (Chairman)	999	1	**1,000**	1,000	302
NBP Gcaba	156	—	**156**	633	517
MP Moyo	163	—	**163**	645	413
NR Njeke	525	—	**525**	450	394
Y Forbes	539	—	**539**	225	—
MA Fanucchi	450	—	**450**	450	138
NK Choubey	375	—	**375**	263	—
HD Gazendam	564	—	**564**	550	138
IB Skosana (1)	488	—	**488**	488	138
MP Malungani (2)	—	—	**—**	450	138
BD Mkhwanazi	163	—	**163**	525	156
TZ Mnyaka	187	—	**187**	600	156
N Moola	450	—	**450**	450	138
NP Mnxasana	138	—	**138**	—	—
IB Sharma	488	—	**488**	450	138
E Tshabalala	501	—	**501**	488	156
DLJ Tshepe	506	—	**506**	450	138
Total	6,692	1	**6,555**	8,117	3,060

(1) Director's fees paid to Kapela Investment Holdings (Pty) Ltd.
(2) Resigned with effect from 1 April 2012.

35. Commitments

Capital commitments*	2013 R million	2012 R million	2011 R million
Contracted for in US Dollars	**216**	567	22,790
Contracted for in Japanese Yen	**312**	607	1,184
Contracted for in Euros	**83**	42	20
Contracted for in SA Rands	**13,998**	12,342	3
Contracted for in various other currencies	**41**	85	101
Total capital commitments contracted for	**14,650**	13,643	24,098
Authorised by the Directors but not yet contracted for	**292,802**	286,484	86,497
	307,452	300,127	110,595
Total capital commitments are expected to be incurred as follows:			
Within one year	**28,581**	31,183	25,859
After one year, but not more than five years	**198,055**	180,460	84,736
After five years, but not more than seven years	**80,816**	88,484	—
	307,452	300,127	110,595

These capital commitments will be financed by the net cash flow from operations, debt capital markets, through project finance and the use of operating leases.

* Excludes capitalised borrowing costs of R10,540 million (2012: R15,297 million, 2011: R5,894 million).

35. Commitments (continued)

Operating lease commitments

Future minimum rentals under non-cancellable leases are as follows:

	2013 R million	2012 R million	2011 R million
Land, buildings and structures			
Within one year	**116**	87	93
Within two to five years	**382**	327	319
After five years	**351**	352	409
	849	766	821
Aircraft, Machinery, equipment, furniture and motor vehicles			
Within one year	**115**	539	380
Within two to five years	**224**	804	649
After five years	**7**	19	19
	346	1,362	1,048
Security and maintenance contracts			
Within one year	**130**	265	152
Within two to five years	**24**	109	93
	154	374	245
Other			
Within one year	**105**	42	20
Within two to five years	**118**	23	15
	223	65	35

The operating leases relate mainly to leases of vehicles from McCarthy, Bidvest and other companies. These leases have varying terms. On certain leases, contingent rent is payable for vehicles that exceed the fixed kilometres on a monthly basis.

Finance lease commitments

The finance leases relate to the Kimberley—De Aar transmission line, MTN Coal Line Network, computer equipment and camera security equipment. These finance leases have a lease term ranging between 3 to 17 years. The interest rates vary from 11.25 per cent. to 16.93 per cent.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2013 R million	2012 R million	2011 R million
Machinery, equipment and furniture			
Within one year	**28**	54	46
Within two to five years	**58**	63	44
After five years	**109**	119	58
Total minimum lease payments	**195**	236	148
Amount representing finance charges	**(107)**	(120)	(15)
Present value of minimum lease payments	**88**	116	133
Current borrowings	**16**	39	38
Non-current borrowings	**72**	77	95
	88	116	133

35. Commitments (continued)

Lease rentals receivable

Future minimum rentals under operating leases are as follows:

	2013 R million	2012 R million	2011 R million
Property			
Within one year	**1,235**	1,316	1,095
Within two to five years	**3,625**	3,301	3,079
After five years	**4,344**	4,664	3,878
	9,204	9,281	8,052
Other			
Within one year	**24**	126	114
Within two to five years	**—**	520	360
After five years	**—**	504	540
	24	1,150	1,014

The lease rentals relate mainly to land and buildings. These are mainly short-term rentals with an escalation varying from 8 per cent. to 10 per cent.

36. Contingent liabilities, assets and guarantees

	2013 R million	2012 R million	2011 R million
Various contingent liabilities where no material losses are expected to materialise	**258**	256	192
Various contingent assets where the inflow of economic benefits is probable, but not virtually certain	**30**	18	74

Transnet entered into an alienation and lease agreement with an external party in respect of some properties in the port of Port Elizabeth. Counsel has advised that these agreements are enforceable and cannot be realised from on the basis that the obligations they impose on Transnet are unduly onerous and disadvantageous. The external party has initiated arbitration proceedings to force Transnet to perform in accordance with the agreements. Transnet is considering the best and most prudent option to resolve this matter.

Asbestos roofs and asbestos cladding

Transnet owns buildings with asbestos roofs and asbestos cladding. In terms of the Asbestos Regulations of 2001, Transnet is responsible for taking reasonable steps to determine the location of asbestos in the workplace for the purposes of managing the potential risk associated with such materials. The assessment for the potential risk of exposure and the cost of removal is a complex scientific process which requires the expertise of an environmental specialist. In certain cases the asbestos cladding is of low friability, i.e., dust fibres released is negligible/non-existent and therefore maintenance and inspection of the contamination is the preferred rehabilitation option, until the roofs and cladding is removed and replaced.

37. Cash flow Information

	2013 R million	2012 R million	2011 R million
Cash generated from operations			
Continuing operations	**6,320**	6,241	5,692
Discontinued operations	**—**	—	(41)
Profit before taxation	**6,320**	6,241	5,651
Adjustment for:			
Finance costs (refer note below)	**5,328**	4,233	3,428
Finance income	**(405)**	(488)	(561)
Dividend income	**—**	—	(1)
Depreciation, amortisation and derecognition	**9,277**	8,355	7,184
Decrease in provision for post-retirement benefit obligation	**(259)**	(141)	(5)
Reversal of impairment of loss making subsidiaries and associates	**(1)**	1	(3)
Impairment of trade and other receivables and loans and advances	**493**	257	249
Impairment of property, plant and equipment	**67**	150	291
Impairment reversal of assets held-for-sale	**—**	(66)	—
Movement in provisions	**1,107**	1,792	232
(Income)/loss from associates	**(24)**	6	(58)
Fair value adjustments on derivatives	**(2,282)**	(413)	618
Unrealised foreign exchange (gains)/loss	**3,045**	1,006	(158)
Loss/(profit) on sale of property, plant and equipment	**62**	(39)	(33)
Write-off of loan accounts	**2**	—	—
Profit on disposal of the division/subsidiary	**(55)**	—	—
Discount on bonds amortised	**38**	30	32
Provision/(reversal) for inventory obsolescence	**9**	—	(70)
Release of firm commitments	**114**	53	8
Fair value adjustment of investment property	**(274)**	(353)	(637)
Other non-cash items	**8**	(8)	(8)
Impairment of intangible assets	**29**	—	—
	22,599	20,616	16,159
Changes in working capital			
Increase in inventories	**(818)**	(244)	(139)
(Increase)/decrease in receivables	**(1,129)**	(359)	136
Increase in payables	**674**	1,384	795
	(1,273)	781	792
Finance costs			
Finance cost	**5,545**	4,255	3,439
Net foreign exchange gains/(losses) on translation	**(179)**	8	21
Discounts on bonds amortised	**(38)**	(30)	(32)
	5,328	4,233	3,428
Finance income			
Finance income	**405**	488	561
Interest received – Held-to-maturity	**(83)**	(81)	(95)
	322	407	466
Taxation paid			
Balance at the beginning of the year	**209**	303	(171)
Taxation as per income statement	**(43)**	(189)	(905)
Balance at the end of the year	**56**	(209)	(303)
Taxation paid	**222**	(95)	(1,379)
Disposal of subsidiary			
Cash and cash equivalents	**—**	—	1
Net asset value	**—**	—	1
Selling Price	**—**	—	1
Net proceeds	**—**	—	1
Cash and cash equivalents			
Total cash and cash equivalents at the end of the year	**2,598**	1,189	10,876

38. Financial instruments

Introduction

The Group has a centralised treasury function which performs a supporting role to the Transnet Operating divisions and is tasked with the following three main objectives:

- Ensuring that the Group is cost-effectively and timeously funded in support of the Group's Market Demand Strategy (MDS), which are mainly executed by the Operating divisions;
- Manage both financial and operational risks; and
- Lower the overall cost of doing business and add value to the overall business of Transnet.

All these objectives should be performed in a professional and ethical manner in line with Transnet's governance framework.

Policies

The Financial Risk Management policies are contained in a Board approved Financial Risk Management Framework. The objective of the Financial Risk Management Framework is to provide clear guidelines for effective risk management by ensuring that:

- Risks are independently identified, assessed, quantified, mitigated and monitored regularly;
- Mitigating hedging strategies are developed and implemented;
- The effectiveness of hedging strategies are monitored monthly; and
- Risk exposures are performance measured and formally reported to appropriate authorities.

The Financial Risk Management Framework is approved by the Board on an annual basis and is aligned with the Group Enterprise Wide Risk Management Framework(ERM), the Treasury Regulations in terms of PFMA, Public Finance Management Act 1 of 1999 (as amended) (PFMA), King III Code and the Protocol on Corporate Governance, Charter of Best Practice of the Association of Corporate Treasures of South Africa (ACTSA) and other applicable legislation and regulations.

Apart from the requirements of the Financial Risk Management Framework, Treasury must operate within the limits as contained in the Transnet Delegation of Authority Framework (DOA) as approved by the Board.

Risk philosophy

The overall risk management philosophy of Transnet is to the extent possible, avoid undue risks and manage business risks. However, given the nature of Transnet's business and Market Demand Strategy (MDS), it is not always possible to avoid risks all together.

In pursuit of its business, the Group is exposed to a myriad of risks including but not limited to market, credit, liquidity and operational risks. The long-term viability, continued success and reputation of Transnet are critically dependent on the credibility of risk management, and commitment to applying leading practice in risk management.

Risk profile and risk management

Financial risk assessment and analysis are disclosed on a monthly basis to the Group Treasurer, Group Chief Financial Officer, the Group Finance Committee (Finco) and the Group Executive Committee (Exco). The Group Executive committee is responsible for reporting financial risk exposures to the Transnet Board of Directors at scheduled Board meetings.

The Group's business operations expose it to liquidity, credit, and market risk (comprising foreign currency, commodity, interest rate and other price risk), which are discussed under the headings below. Given the level of volatility in the markets, Treasury will continuously manage all risks very closely so as to implement risk mitigating initiatives timeously when required.

38. Financial instruments (continued)

Liquidity risk

Liquidity risk exposures arise mainly as a result of the Group's seven-year rolling capital investment and operational expenditure programmes, the redemption of loans and daily operational cash requirements. The Group has established a liquidity risk management policy with the following main objectives:

- To ensure adequate availability of funds in all currencies, to enable Transnet SOC Ltd to meet all expected and unexpected financial commitments cost-effectively;
- To manage the contractual maturity gap between assets and liabilities;
- To manage current and projected cash flows;
- To maintain an adequate level of cash holdings;
- To diversify funding sources and have funding programmes available to reduce reliance on particular sources to support effective liquidity risk management;
- To spread the maturity of debt issues to reduce refinancing risk;
- To do pre-funding of major capital redemptions to mitigate liquidity risk; and
- Where needed, extend the debt portfolio to match the underlying assets.

During the 2013 year, Transnet has used the following funding programmes extensively to mitigate liquidity risk exposures; DMTN programme (the issue size of the programme (R 55 billion DMTN programme—Bonds R 2.1 billion and Commercial Paper R 1.1 billion); Export Development Agencies R1.8 billion; GMTN programme R 8.2 billion and Developmental Finance Institutions of R 0.8 billion.

Certain thresholds, which are a combination of available cash, committed and un-committed bank facilities, minimum cash liquidity buffer and the pre-funding of major loan redemptions are minimum requirements of the approved policy to further ensure effective liquidity risk management. Capital market investments are not allowed to avoid any capital losses before maturity as a result of the Group's MDS strategy.

Transnet also produces a "seven-year cash flow projection" as part of the annual MDS strategy update. These provide Treasury with a good estimate of the Group's future funding requirements per financial year.

Counterparty risk

Counterparty risk exposures arises mainly as a result of the investment of operational cash on hand and surplus cash due to pre-funding strategies, positive fair market values of derivative hedging instruments and the bond market making process. The Group's main objectives of its counterparty risk policies are:

- To mitigate counterparty risk exposures;
- To diversify counterparty risk exposures;
- To set limits for the different types of counterparty risk exposures; and
- To ensure that financial transactions are done with approved high credit quality counterparties.
- The counterparty risk policy of the Group is fully aligned with the requirements of the Treasury Regulations as referred to in the PFMA:
- Selection of counterparties through credit risk analysis;
- Establishment of investment limits per institution;
- Establishment of investment limits per investment instrument;
- Monitoring of investments against limits;
- Reassessment of investment policies on a regular basis;

38. Financial instruments (continued)

- Reassessment of counterparty credit risk based on credit ratings; and
- Assessment of investment instruments based on liquidity requirements.

Financial assets that potentially subject the Group to concentrations of credit risk consist primarily of cash balances, call investments, short-term deposits, money market fund investments and positive fair market values of derivatives and trade receivables. The Group's exposures to counterparty risks in respect of all Treasury related transactions are confined to credible counterparties and are managed within Board approved credit limits. Limits are reviewed and approved by the Board on an annual basis. Trade receivables are presented net of impairments. It is Treasury's policy to perform ongoing credit evaluations of the financial position of its counterparties. Guarantees are issued under specific powers granted in terms section 66 of the of the PFMA, and in accordance with an approved Delegations of Authority Framework (DOA).

Investments are only allowed with international counterparties that are local authorised dealers with a minimum international long-term default issuer credit rating of A- (Fitch Rating) or A- (Standards and Poors) or A3 Moodys and domestic counterparties with a minimum national long-term credit rating of A- (zaf) (Fitch Ratings) or A- (Standards and Poors) or A3 Moodys and approved by the Board as an approved counterparty. In addition to this the counterparty must have a minimum short-term credit rating of F-1 (Fitch Rating) or P-1 (Moodys) or A-1 (Standard and Poors) to qualify for cash type of investments. No more than 40 per cent. of overall cash available may be invested with counterparties in the A rating category and is limited to 33 per cent. per investment type per counterparty. Money market funds are utilised as the major investment vehicle for surplus cash due to its diversified risk profile and enhanced return.

Market risk

This will be discussed under the following headings: Foreign currency, Commodity, Interest rate and other price risk.

Foreign currency risk

Foreign currency risk arises mainly as a result of the Group's MDS and operational expenditure programmes, where goods are imported from foreign countries and are exposed to currency fluctuations as well as the raising of funding in a foreign currency. Transnet's main objectives regarding its foreign currency risk policies are:

- To mitigate foreign currency risk exposures;
- To bring certainty about future Rand cash flows where FX is involved; and
- To insulate the Group's statement of comprehensive income against exchange rate fluctuations.

Transnet's policy only allows un-hedged foreign currency risk exposures limited to 0.5 per cent. of annual operational budget and 1.0 per cent. of annual capital expenditure budget. All foreign currency risk exposures are hedged within the approved FRM and DOA as soon as the supplier and funding agreements are signed. It is the Group's preference to enter into rand-based supplier and funding agreements, if this can be achieved at an acceptable cost, with no FX risk recourse to Transnet. If this approach is not cost-effective, Transnet will then hedge on its own statement of financial position. No pooling of hedging across different exposure types is allowed and hedging is done per major currency. The net foreign currency position is monitored on a monthly basis, by obtaining the net foreign currency position in all the major currencies i.e. US dollar (USD), Euro, pound sterling (GBP) and Japanese yen (JPY) and other foreign currencies. Foreign currency risk exposures are fully hedged until maturity with vanilla hedging instruments after careful consideration and analysis of the tax, financial risk, accounting, operational and system implications. Hedge accounting is applied to all major structures to minimise income statement volatility and the performance is monitored monthly by a sub-committee of Finco to ensure proper implementation and adherence to guidelines.

Commodity risk

Commodity risk refers to the potential variability in Transnet's financial condition owing to the changes in commodity prices such as Brent crude oil, steel, iron ore and others. Only fuel risk exposures are actively

38. Financial instruments (continued)

monitored on a regular basis and are hedged in terms of the approved FRM and DOA. Major customer agreements are structured in such a way that tariffs can be adjusted to compensate for changes in fuel prices (Brent and exchange rates) and does provide a relatively high natural risk offset. Only the unhedged portion on fuel will be considered for hedging purposes in terms of approved policies. The Board approved Financial Risk Management Framework requires the utilisation of vanilla type hedging instruments that are highly liquid with a maximum tenure of 12 months and the underlying used in a hedging strategy must have a very high correlation with the actual product consumed. The purpose of fuel hedging is to immunise the Group's annual approved fuel budget.

Interest rate risk

This refers to the potential variability in Transnet's financial condition owing to changes in interest rate levels. The Group's borrowings, investments in interest-bearing instruments and derivative financial instruments create an exposure to this risk. The Group's main objectives in managing interest rate risk are as follows:

- Manage the ratio of floating rate exposures versus fixed rate exposures;
- Reduce the weighted average cost of debt (WACD) to ensure the gap to prevailing market rates is reduced;
- Take advantage of interest rate cycles;
- Support the business strategy in so far as interest rates are concerned;
- Minimise the negative impact of adverse interest rate movements on the Group's net income and cash flows to within an acceptable risk profile;
- Minimise the market making cost of the Transnet bonds;
- Manage the basis risk exposure where interest rate risk is netted between investments and borrowings; and
- Manage the duration of the debt portfolio (including derivatives) to try and achieve alignment with the duration of the average payback periods of assets.

The Group measures interest rate risk by calculating the impact of fair value movements on derivatives and floating rate loans and running cash flow at risk scenarios and extreme sensitivities to determine the impact against the annually approved external finance cost budget in respect of current liabilities and new funding requirements per Financial Year. All foreign currency interest rate risk exposures are hedged to Rand as soon as agreements are concluded. The Group's Treasury is allowed to manage the fix/float interest rate risk exposure within Board approved ranges.

Other price risks

The only other market risk the Group is exposed to, is equity price risk. Equity price risk is the risk of fair value changes in future cash flows of a financial instrument as a result of changes in the underlying share price. Transnet does not trade in equities and the only exposure of this nature at 31 March 2013 was an exposure in Brazil which is listed on the Brazilian stock exchange.

38. Financial instruments (continued)

Liquidity risk

Bonds at carrying and nominal values:

Domestic Rand bonds

Transnet issues domestic bonds listed on the Johannesburg Securities Exchange (JSE) and the London Stock Exchange (LSE). The following Rand bonds were in issue at 31 March:

			2013		2012		2011	
Bond	**Redemption date**	**Coupon rate Per cent.**	**Carrying value R million**	**Nominal value R million**	**Carrying value R million**	**Nominal value R million**	**Carrying value R million**	**Nominal value R million**
T018*	15-July-14	10.75	Redeemed	Redeemed	Redeemed	Redeemed	6,058	6,000
TN17	14-Nov-17	9.25	**6,772**	**7,000**	6,734	7,000	6,702	7,000
TN20	17-Sept-20	10.50	**7,128**	**6,849**	6,503	6,278	4,734	4,646
TN23	06-Nov-23	10.80	**7,347**	**7,000**	6,490	6,211	4,689	4,578
TN25	19-Aug-25	9.50	**4,442**	**4,379**	3,808	3,779	2,586	2,571
TN27	14-Nov-27	8.90	**6,350**	**7,000**	6,330	7,000	6,315	7,000
			32,039	**32,228**	29,865	30,268	31,084	31,795

* *The T018 bonds were redeemed during the Financial Year 2012. Of the R6 billion redeemed, R3 billion was redeemed using cash on hand and the remaining R3 billion through a bond swap using TN20, TN23 and TN25.*

Eurorand bonds

The following Rand bonds were in issue at 31 March:

			2013	2012	2011	2013	2012	2011
Bond	**Redemption date**	**Coupon rate Per cent.**	**Carrying value R million**	**Nominal value R million**	**Carrying value R million**	**Nominal value R million**	**Carrying value R million**	**Nominal value R million**
Euro 42*	18-Apr-28	13.50	**1,955**	**2,000**	1,955	2,000	1,953	2,000
Euro 42A*	30-Mar-29	10.0	**1,047**	**1,500**	1,040	1,500	1,034	1,500
Total for Eurorand bonds			**3,002**	**3,500**	2,995	3,500	2,987	3,500

Foreign currency bonds

The following foreign currency bonds were in issue at 31 March:

			2013		2012		2011	
Bond	**Redemption date**	**Coupon rate Per cent.**	**Carrying value R million**	**Nominal value R million**	**Carrying value R million**	**Nominal value R million**	**Carrying value R million**	**Nominal value R million**
TNUS 16	10-Feb-16	4.50	**6,941**	**6,965**	5,736	5,762	5,121	5,149
TNUS22**	26-July-22	4.00	**9,186**	**9,287**				
			16,127	**16,252**	5,736	5,762	5,121	5,149
Total Bonds			**51,168**	**51,980**	38,596	39,530	39,192	40,444

The bonds are guaranteed by the Government of the Republic of South Africa, and the Company paid R 1.2 million in guarantee fees (2012: R 19.2 million, 2011: R 19.2 million). The amounts in the above tables are all in respect of bonds held at amortised cost.

** *The TNUS22 USD bond issued under the GMTN programme on 26 July 2012.*

38. Financial instruments (continued)

Concentration of liquidity risk

The Group's sources of funding are tabled below. 70 per cent. of the Group's borrowings are widely held. (2012: 69 per cent., 2011: 64 per cent.)

	2013 R million	2012 R million	2011 R million
Sanlam Capital Markets Ltd	51	102	—
Sanlam Investment Management (Pty) Ltd	24	48	—
Standard Bank London	584	635	2,682
Standard Bank Corporate Investment Bank	524	1,749	693
RMB/Division of FirstRand Bank Ltd	4,737	5,893	6,078
The Bank of Tokyo Mitsubishi Ltd	2,312	2,454	2,468
ABSA Bank Ltd	1,895	3,300	2,204
American Family Life Assurance Co. (AFLAC)	1,481	1,398	1,265
French Development Bank	1,729	1,000	500
Sumitomo Mitsui Banking Corporation	3,808	—	—
Export Development Canada	929	—	—
African Development Bank	1,000	—	—
Investec Bank Ltd	—	—	150
China Construction Bank – JHB Branch	—	—	640
Citibank N.A. – South Africa	—	—	250
Nedbank Ltd	2,071	2,095	2,189
Blue Titanium Conduit Limited	245	—	—
Momentum	—	—	100
Omsfin	—	—	650
Various holders of Transnet bonds and commercial paper, widely held, and traded*	51,492	39,331	39,883
Other	206	127	278
	73,088	58,132	60,030

* *Includes Bonds held at amortised cost R 51,168 million (2012: R 38,596 million, 2011: R 39,192 million) and commercial paper R 324 million (2012: R 735 million, 2011: R 691 million).*

Funding plan

As a result of the Group's Market Demand Strategy, the funding requirements, including loan redemptions of R 31.3 billion, over the next seven years is anticipated to amount to R 67.9 billion and is reflected below.

	Target 2014 R million	Projections 2015 R million	2016 R million	2017 R million	2018 R million	2019 R million	2020 R million	Total R million
Loan redemptions	(5,585)	(1,863)	(8,600)	(1,917)	(8,961)	(1,642)	(2,768)	(31,336)
Total funding (requirement)/ excess	(15,594)	(15,041)	(20,972)	(14,188)	(19,290)	(2,613)	19,823	(67,875)

The following schedule indicates the probable sources of funding that may be utilised by Transnet over the next four Financial Years, which will be driven by the Group's business strategy, liquidity, investor/lender appetite as well as pricing.

Probable Sources of Funding	2014 R billion	2015 R billion	2016 R billion	2017 R billion
Commercial paper	5.60	7.70	11.00	7.70
Domestic bonds	9.75	6.00	7.00	5.50
DFI's/ECA's/GMTN	0.25	1.40	3.00	1.00
Bank loans/other				
Total	15.60	15.10	21.00	14.20

38. Financial instruments (continued)

Contractual maturity analysis

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements for the Group.

	2013 Carrying value R million	2013 Contractual cash flows R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non derivative financial liabilities								
Bonds	(51,168)	(94,811)	(4,266)	(11,232)	(4,267)	(3,953)	(10,953)	(60,140)
Secured bank loans	(4,204)	(6,052)	(1,020)	(645)	(652)	(637)	(630)	(2,468)
Unsecured bank loans	(17,189)	(20,883)	(5,732)	(2,353)	(2,454)	(2,269)	(2,183)	(5,892)
Commercial paper	(324)	(330)	(330)					
Other short term borrowings	(203)	(311)	(144)	(14)	(21)	(12)	(11)	(109)
Total borrowings	(73,088)	(122,387)	(11,492)	(14,244)	(7,394)	(6,871)	(13,777)	(68,609)
Trade payables and accruals	(12,209)	(12,209)	(12,209)	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	—	—	—
Cross Currency Swaps and options	—	—	—	—	—	—	—	—
Forward exchange contracts used for hedging								
– outflow	(412)	(453)	(126)	(118)	(126)	(83)	—	—
– inflow	355	356	110	94	94	58	—	—
Other forward exchange								
– outflow	(348)	(348)	(99)	(97)	(94)	(58)	—	—
– inflow	320	352	92	97	100	63	—	—
Total derivative financial instruments	(85)	(93)	(23)	(24)	(26)	(20)	—	—

	2012 Carrying value R million	2012 Contractual cash flows R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non derivative financial liabilities								
Bonds	(38,596)	(79,275)	(2,704)	(3,639)	(3,639)	(9,401)	(3,379)	(56,513)
Secured bank loans	(3,902)	(5,864)	(902)	(527)	(811)	(525)	(523)	(2,576)
Unsecured bank loans	(14,774)	(17,945)	(5,120)	(1,008)	(4,929)	(960)	(929)	(4,999)
Commercial paper	(735)	(735)	(735)	—	—	—	—	—
Other short term borrowings	(125)	(244)	(62)	(14)	(26)	(11)	(11)	(120)
Total borrowings	(58,132)	(104,063)	(9,523)	(5,188)	(9,405)	(10,897)	(4,842)	(64,208)
Trade payables and accruals*	(7,623)	(7,623)	(7,623)	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	—	—	—
Cross Currency Swaps and options	—	—	—	—	—	—	—	—
Forward exchange contracts used for hedging								
– outflow	(1,402)	(1,501)	(1,072)	(102)	(118)	(126)	(83)	—
– inflow	1,263	1,270	987	73	80	80	50	—
Other forward exchange								
– outflow	(246)	(249)	(135)	(41)	(34)	(39)	—	—
– inflow	241	261	133	44	37	47	—	—
Total derivative financial instruments	(144)	(219)	(87)	(26)	(35)	(38)	(33)	—

38. Financial instruments (continued)

	2011 Carrying value R million	2011 Contractual cash flows R million	0 to 12 months R million	1 to 2 years R million	2 to 3 years R million	3 to 4 years R million	4 to 5 years R million	More than 5 years R million
Non derivative financial liabilities								
Bonds	(39,192)	(81,297)	(3,794)	(3,794)	(3,794)	(9,471)	(8,298)	(52,146)
Secured bank loans	(4,022)	(6,404)	(647)	(798)	(810)	(526)	(525)	(3,098)
Unsecured bank loans	(15,848)	(19,364)	(9,595)	(997)	(1,991)	(886)	(842)	(5,053)
Commercial paper	(691)	(715)	(715)	—	—	—	—	—
Other short term borrowings	(277)	(277)	(277)	—	—	—	—	—
Total borrowings	(60,030)	(108,057)	(15,028)	(5,589)	(6,595)	(10,883)	(9,665)	(60,297)
Trade payables and accruals	(7,007)	(7,007)	(7,007)	—	—	—	—	—
Derivative financial instruments								
Cross Currency Swaps and options	(458)	(14,773)	(1,224)	(1,204)	(1,171)	(1,146)	(6,586)	(3,442)
Forward exchange contracts used for hedging								
– outflow	(180)	(346)	(299)	(40)	(5)	(2)	—	—
– inflow	—	331	284	40	5	2	—	—
Other forward exchange								
– outflow	(12)	(2,052)	(1,427)	(195)	(102)	(119)	(126)	(83)
– inflow	—	1,744	1,319	156	70	76	76	47
Total derivative financial instruments	(650)	(15,096)	(1,347)	(1,243)	(1,203)	(1,189)	(6,636)	(3,478)

38. Financial instruments (continued)

Credit risk—Maximum exposure and analysis of exposures to credit risk

The following maximum exposures to credit risk existed at 31 March 2013 in respect of financial assets:

	2013				2012				2011			
Group	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired	Carrying value R million	Neither past due nor impaired R million	Past due but not impaired R million	Impaired R million
Trade and other receivables:												
– Low risk	4,070	3,459	570	(644)	3,554	3,079	475	(595)	3,226	2,476	750	(352)
– Medium risk	785	707	77	(43)	783	664	119	(32)	852	788	64	(107)
– High risk	319	289	30	(348)	306	281	25	(312)	252	212	40	(201)
Trade receivables****	5,174	4,455	677	(1,035)	4,643	4,024	619	(939)	4,330	3,476	854	(660)
Miscellaneous receivables**	807	475	332	(460)	713	638	75	(41)	944	393	551	(55)
Investments—current	1,359	1,359	—	—	2,755	2,755	—	—	1,566	1,566	—	—
Long and short-term loans and advances*	6	6	—	—	4	4	—		14	14	—	—
Guarantees issued	114	—	—	—	1,940	—	—	—	2,153	—	—	—
Investments (call and fixed deposits, including cash) and price risk***	8,766	—	—		1,645				12,966			

*** Investment risk includes call and fixed deposits as well as money market funds. The high investment risk exposure for 2012 and 2013 is as a result of pre-funding done to minimise liquidity risk to fund the capital expenditure programme.

* Long term advances R 4 million (2012: R 2 million, 2011: R 11 million).
Short term R 2 million (2012: R 2 million, 2011: R 3 million).

** Miscellaneous receivables R 807 million (2012: R 713 million, 2011: R 944 million).
Prepayments R 265 million (2012: R 257 million, 2011: R 226 million).
Total prepayments and miscellaneous receivables R 1,072 million (2012: R 970 million, 2011: R 1,170 million).

****Trade and other receivables as per above R 5,174 million (2011: R 4,643 million, 2011: R 4,330 million).

38. Financial instruments (continued)

Low risk: No guarantee is required from the customer.

Medium risk: 50 per cent. – 75 per cent. guarantee required by the customer.

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

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

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

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

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

Credit enhancements in the form of title deeds and pension fund cessions for loans and advances and deposits and guarantees in respect of amounts included in trade and other receivables and loans and advances, are held by the Group. The Group took possession of some collaterals during the current Financial Year amounting to R nil (2012: R Nil million; 2011: R 1.2 million).

The following represents the ageing of the carrying value of financial assets past due but not impaired at 31 March for the Group:

	1 – 30 days				31 – 60 days				Greater than 60			
2013	**Past due**	**Low risk**	**Medium risk**	**High risk**	**Past due**	**Low risk**	**Medium risk**	**High risk**	**Past due**	**Low risk**	**Medium risk**	**High risk**
Trade receivables	**348**	332	15	1	**46**	42	3	1	**324**	237	60	27
Other receivables	**282**	282	—	—	**31**	31	—	—	**18**	18	—	—
2012												
Trade receivables	**430**	400	22	8	**23**	14	6	3	**166**	61	91	14
Other receivables	**26**	26	—	—	**2**	2	—	—	**47**	47	—	—
2011												
Trade receivables	**189**	164	15	10	**67**	59	4	4	**598**	527	45	26
Other receivables	**19**	19	—	—	**7**	7	—	—	**525**	525	—	—

Guarantees and deposits to the value of R 346 million were held as collateral (2012: R 279 million, 2011: R 55 million)

The following financial assets have been specifically impaired for the Group and Company at 31 March:

	2013 R million		2012 R million		2011 R million	
	Trade receivables	**Other receivables**	**Trade receivable**	**Other receivables**	**Trade receivable**	**Other receivables**
Low risk	128	3	543	8	444	4
Medium risk	63	—	74	—	338	—
High risk	14	—	210	—	143	—

Financial assets have been impaired based on the age of the debt and the inability to recover these specified assets. Guarantees and deposits amounting to R 193 million (2012: R 175 million and 2011: R 30 million) are held with respect to these. Payment terms were renegotiated with certain counterparties in respect of trade receivables during the year.

38. Financial instruments (continued)

Concentration of credit risk

The Group's twelve most significant customers (South African Industrial enterprises) comprise 43 per cent. of the trade receivables carrying amount at 31 March 2013 (2012: 44 per cent.), (2011: 53 per cent.).

The following table reflects the distribution of credit risk, expressed in terms of long-term credit ratings, excluding guarantees and trade receivables. The exposures below include cash investments (call, fixed deposits and money market funds), price risk exposures and operational bank balances.

	2013 R million	2012 R million	2011 R million
Transnet Ltd risk per long term rating			
A+	**3,749.1**	90.5	1,675.3
A	**820.09**	130	818.6
AA+	**—**	230.1	—
AA	**2,249.2**	752.6	1,447.6
AA-	**785.61**	442	2,135.4
AAA	**1,159.9**	—	1,062.9
Money Market Funds	**2.06**	0	5,920.7
Bond Exchange	**0.05**	0.1	0.1
Total	**8,766.01**	1,645.3	13,060.6

During the previous Financial Year cash balances were generally higher due to a pre-funding strategy which was not the case during the current Financial Year and hence the reason for the lower investment risk.

Bond exposures are guaranteed by the Johannesburg Securities Exchange.

Bond Exchange Exposures are guaranteed by the Bond Exchange of South Africa.

The table below reflects the distribution of credit risk per financial instrument per long term credit rating category, excluding guarantees and receivables.

Transnet Ltd risk per instrument per long term rating	2013 R million	2012 R million	2011 R million
Investments			
A+	**835.21**	90	1,675.3
A	**820.09**	130	818.6
AA+	**—**	112.7	—
AA	**1,534.43**	720.8	1,447.6
AA-	**785.61**	135.4	2,135.4
AAA	**1,005.43**	—	1,062.9
Money market funds	**2,006**	—	5,920.7
Total investments	**6,986.77**	1,188.9	13,060.5
Derivatives			
A+	**2,913.4**	0.5	—
A	**—**	0.0	—
AA+	**—**	117.4	—
AA	**714.75**	31.8	—
AA-	**—**	306.6	—
Bond exchange	**0.05**	—	0.1
Money market funds	**—**	0.0	—
Total derivatives	**3,628.2**	456.3	0.1

38. Financial instruments (continued)

Foreign currency risk

The Group's net long (short) foreign currency risk exposures at 31 March 2013 report date are reflected below (expressed in notional amounts)

Group	2013 USD US$/m	2013 JPY Y/m	2013 EUR €m	2013 AUD AU$/m	2013 Other currencies exp in USD US$/m	2012 USD US$/m	2012 JPY Y/m	2012 EUR €M	2012 AUD Au$/M	2012 Other currencies exp in USD Us$/M
Foreign currency bonds	**(1,750)**	**—**	**—**	**—**	**—**	(750)	—	—	—	—
Secured bank loans	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Unsecured bank loans	**(510)**	**(38,408)**	**—**	**—**	**—**	—	(41,334)	—	—	—
Brazil equity investment	**12**	**—**	**—**	**—**	**—**	13	—	—	—	—
Gross statement of financial position exposure	**(2,248)**	**(38,408)**	**—**	**—**	**—**	(737)	(41,334)	—	—	—
Exposures for future expenditure	**(47)**	**(3,501)**	**(6)**	**(9)**	**(1)**	(128)	(8,494)	(47)	(3)	(11)
Gross foreign currency exposure	**(2,295)**	**(41,909)**	**(6)**	**(9)**	**(1)**	(865)	(49,828)	(47)	(3)	(11)
Forward exchange contracts	**45**	**3,501**	**6**	**9**	**1**	110	8,494	30	—	11
Cross currency swaps	**2,260**	**38,408**	**—**	**—**	**—**	750	41,334	—	—	—
Net uncovered exposure	**10**	**—**	**—**	**—**	**—**	(5)	—	(17)	(3)	—

	2011 USD US$/m	2011 JPY Y/m	2011 EUR €m	2011 AUD AU$/m	2011 Other currencies exp in USD US$/m
Secured bank loans	(750)	—	—	—	—
Unsecured bank loans	—	(44,260)	—	—	—
Brazil equity investment	21	—	—	—	—
Gross statement of financial position exposure	(729)	(44,260)	—	—	—
Exposures for future expenditure	(13)	(17,046)	(94)	(9)	(17)
Gross foreign currency exposure	(742)	(61,306)	(94)	(9)	(17)
Forward exchange contracts and Currency Options	5	17,046	41	4	—
Cross currency swaps	750	44,260	—	—	—
Net uncovered exposure	13	—	(53)	(5)	(17)

Sensitivity analysis

The table below shows the impact on profit and loss (non-hedge accounted transactions) of a stronger and weaker Rand for the Group, as a result of fair value movements of cross currency interest rate swaps and forward exchange contracts.

Currency	2013 Currency exposure in millions of currency R million	2013 Fair value in R million	2013 Impact of Rand strengthening R million	2013 Impact of Rand weakening R million	2012 Currency exposure in millions of currency R million	2012 Fair value in R million	2012 Impact of Rand strengthening R million	2012 Impact of Rand weakening R million
AUD	—	—	—	—	—	—	—	—
EUR	(30)	(27)	(25)	25	(33)	2	(23)	23
JPY	—	—	—	—	(90)	0.3	(1)	1
USD	1	0,3	2	(2)	(3)	2	(7)	7
TOTAL		(26.7)	(23)	23		4.3	(31)	31

38. Financial instruments (continued)

	2011			
Currency	**Currency exposure in millions of currency R million**	**Fair value in R million**	**Impact of Rand strengthening R million**	**Impact of Rand weakening R million**
AUD	(2)	(0,2)	(2)	2
EUR	(13)	(0.5)	(10)	10
JPY	343	(2)	3	(3)
USD	(2)	(4)	(1)	1
TOTAL		(6.7)	(10)	10

Hedge accounting is applied to 99 per cent. of currency hedges where structures are designated either as fair value hedges or cash flow hedges as detailed in note 22. The sensitivity analysis above includes the impact of fair value movements on derivatives that are part of effective hedge accounting, hence the analysis is on a net balance, after the offsetting effect of the hedged item and hedging instruments. The sensitivity analysis was calculated using a 95 per cent. confidence interval over a 90-day horizon, and assumes all other variables remain unchanged. Basis swap adjustments have been added to the curves when doing the sensitivities to ensure that a more accurate market value is reflected that also takes market liquidity into account.

Value at risk (fx)

The value at risk (VaR) for direct committed and uncommitted capital and operational exposures and the Brazilian equity investment is R12 million (2012: R23 million, 2011: R 61 million). VaR calculates the maximum pre-taxation loss expected (or worst case scenario) on a position held, over a 90-day horizon given a 95 per cent. confidence level and is used on a limited basis at Transnet. The VaR methodology is a statistically defined, probability-based approach that takes into account, inter alia, market volatilities relative to a position held. The Group uses historical simulation and the model assumes that historical patterns will repeat into the future and does not take extreme market conditions into account.

Foreign exchange rates

The mid rates of exchange against Rand used for conversion purposes were:

	2013	**2012**	**2011**
US dollar	**9.2869**	7.6827	6.8655
Pound Sterling	**14.0993**	12.1917	11.0033
Japanese Yen	**10.1262**	10.7319	11.8549
Euro	**11.9601**	10.1896	9.6653
Australian Dollar	**9.7094**	8.0338	7.0385

Interest rate risk

The Group's exposure to fixed and floating interest rates on domestic financial liabilities is as follows:

	2013 R million	**2012 R million**	**2011 R million**
Fixed rate liabilities	**(63,316)**	(43,188)	(42,861)
Floating rate liabilities	**(10,475)**	(15,884)	(14,711)
Total	**(73,791)***	(59,072)*	(57,572)

The exposure to floating interest rates on foreign financial liabilities is R 7,048 million (2012: R 2,454 million, 2011: R 2,468 million) for the Group. The full foreign currency loan portfolio has been swapped to a fixed rand

38. Financial instruments (continued)

interest rate risk exposure by means of cross currency interest rate swaps and is included above under fixed rate liabilities. The Board approved a targeted range of fixed interest rates that may be managed to enable management to utilise interest rate yields.

*** These values exclude the repo liability of R115 million (2012: R3 million), which have a maturity term of one week.**

Sensitivity analysis

The sensitivity analysis below reflect the interest rate impact on the finance cost budget for the 2014 Financial Year in respect of the existing liabilities and new funding requirements.

Impact	2013 Shift + 100bp R million	Shift - 200bp R million	Shift + 250bp R million	Shift - 500bp R million	Shift + 500bp R million	2012 Shift + 100bp R million	Shift - 200bp R million	Shift + 250bp R million	Shift - 500bp R million	Shift + 500bp R million
Finance cost impact (increase)	(258)	273	(523)	803	(966)	84	673	(210)	1,261	(700)
Group's fair value movements	—	—	—	—	—	—	—	—	—	—

Financial instrument	2011 Shift + 100bp R million	Shift - 200bp R million	Shift + 250bp R million	Shift - 500bp R million	Shift + 500bp R million
Finance Cost impact (increase)	(229)	220	(453)	668	(827)
Group's fair value movements	—	—	—	—	—

The impact on profit and loss of higher foreign interest rates on the Company is insignificant, as all foreign debt has been swapped to a fixed Rand interest rate risk.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). This category of instrument consists mainly of derivatives concluded for risk management purposes.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

38. Financial instruments (continued)

	Level 1 R million	Level 2 R million	Level 3 R million	Total R million
		2013		
Financial assets at FVTPL*				
– Derivative financial assets	—	3,855	—	3,855
Financial liabilities at FVTPL*				
– Derivative financial liabilities	—	85	—	85
		2012		
Financial assets at FVTPL*				
– Derivative financial assets	—	502	—	502
Financial liabilities at FVTPL*				
– Derivative financial liabilities	—	144	—	144
		2011		
Financial assets at FVTPL*				
– Derivative financial assets	—	45	—	45
Financial liabilities at FVTPL*				
– Derivative financial liabilities	—	650	—	650

* FVTPL – Fair value through profit and loss.

Note: There were no transfers between Levels 1 and 2 during the period under review.

There were no Level 3 fair value movements to disclose at 31 March 2013 as all fair value calculations are done by using market observable data.

Other price risk

The Group has an exposure to equity price risk on the Brazilian Stock Exchange. At 31 March 2013, the quoted value of the Group's investment in Brazil was R 114 million (2012: R 99 million, 2011: R 142 million). Management believes that the foreign exchange exposure on this investment is significantly greater than that of equity price risk and as such the sensitivity for this investment has been included in the foreign currency risk net position and VaR calculations.

Commodity price risk (Fuel)

The table below shows the cash flow at risk scenarios against budget at various levels of Brent crude and USD/ZAR ($/R) exchange rates as at 31 March 2013 (excluding energy levies):

	Fuel price in dollars per barrel				
Cash inflow/outflow – R million	$/R7.91	$/R8.50	$/R9.29	$/R9.80	$/R10.66
Brent @ $89	263	187	85	19	(93)
Brent @ $95	188	106	(3)	(74)	(194)
Brent @ $108	41	(51)	(175)	(255)	(391)
Brent @ $115	(43)	(142)	(274)	(360)	(505)
Brent @ $127	(180)	(289)	(434)	(529)	(689)

The table below shows the cash flow at risk scenarios against budget at various levels of Brent crude and $/R exchange rates, as at 31 March 2012:

	Fuel price in dollars per barrel				
Cash inflow/outflow – R million	$/R5.54	$ /R6	$/R7.68	$/R9.82	$/R10.00
Brent @ $89.69	489	430	213	(62)	(84)
Brent @ $123.26	191	107	(200)	(590)	(622)
Brent @ $145	12	(86)	(447)	(906)	(943)
Brent @ $159.63	(107)	(216)	(613)	(1,118)	(1,160)

38. Financial instruments (continued)

The table below shows the cash flow at risk scenarios against budget at various levels of Brent crude and $/R exchange rates, as at March 2011:

	Fuel price in dollars per barrel				
Cash inflow/outflow – R million	$/R5.50	$/R5.93	$/R6.87	$/R7.80	$/R9.00
Brent @ $75	295	244	132	20	(124)
Brent @ $89.69	166	105	(29)	(162)	(334)
Brent @ $115.61	(61)	(141)	(313)	(485)	(707)
Brent @ $141.54	(289)	(386)	(597)	(808)	(1,079)

Analysis, classification and fair values of financial instruments

Categories of Financial Instruments

	Group		
	2013 R million	**2012 R million**	**2011 R million**
Financial assets			
Loans and receivables (including bank and cash, trade and other receivables)	**10,305**	9,872	17,956
Fair value through profit and loss			
Held-for-trading	**3,855**	502	45
Financial liabilities			
Liabilities measured at amortised cost (including trade and other payables)	**84,097**	66,767	66,904
Fair value through profit and loss			
Held-for-trading	**85**	144	650
Finance lease liabilities	**88**	116	133

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	Group					
	2013		**2012**		**2011**	
	Fair value R million	**Carrying value R million**	**Fair value R million**	**Carrying value R million**	**Fair value R million**	**Carrying value R million**
Borrowings	**81,745**	**73,000**	55,951	58,016	64,296	59,897
Finance lease obligations	**126**	**88**	155	116	89	133

38. Financial instruments (continued)

The net gains and losses on financial instruments are detailed below:

	2013						2012					
Group	**Liabilities held for trading***	**Liabilities designated at far value through profit and loss**	**Liabilities measured at amortised cost****	**Loans and receivables**	**Available for sale financial assets**	**Assets held for trading**	**Liabilities held for trading***	**Liabilities designated at far value through profit and loss**	**Liabilities measured at amortised cost****	**Loans and receivables and held to maturity investments**	**Available for sale financial assets**	**Assets held for trading**
Net gain/(loss)	—	—	(6,403)	405	—	98	—	—	(5,761)	392	—	27

	2011					
Group	**Liabilities held for trading***	**Liabilities designated at far value through profit and loss**	**Liabilities measured at amortised cost****	**Loans and receivables**	**Available for sale financial assets**	**Assets held for trading**
Net gain/(loss)	(100)	—	(5,205)	479	—	—

* The net gain/(loss) on Group financial assets and financial liabilities held for trading is R Nil million (2012: R 27 million gain, 2011: R 100 million loss). These are held for hedging purposes.

** The net loss on financial liabilities measured at amortised cost consists mainly of interest expense after offsetting against effective cash flow hedges.

38. Financial instruments (continued)

Transnet's credit rating

The following rating actions have been taken by the two rating agencies of Transnet during the 2013 Financial Year.

Standard and Poor's

On 03 April 2012, Standard & Poor's Ratings Agency revised Transnet's outlook to negative from stable after a similar action on the sovereign. This is to align Transnet rating to Government Related Entity Criteria used by Standard & Poor's.

- On 12 October 2012, Standard and Poor's downgraded the long-term foreign currency rating of Transnet to BBB from BBB+ and the negative outlook remained unchanged. This again, followed a similar action done on the Sovereign and the application of the GRE (Government related entity) criteria.
- The Foreign and Local currency credit ratings at reporting date are: 'BBB/A-/; zaAA+/zaA-1' with a negative outlook.
- On 30 April 2013, Standard and Poor's Research, affirmed the ratings as stated above and a stand-alone credit profile (SACP) at bbb+ reflecting a strong business risk profile and a significant financial risk profile. Transnet's ratings are in line with Sovereign ratings in accordance with the GRE (government-related entity) criteria. Therefore a further sovereign downgrade could lead to a similar action taken on Transnet.

The SACP (Stand-alone credit profile) for Transnet remained unchanged at BBB+ reflecting a strong business risk profile and continued operational and financial improvements. Thus, the above changes do not reflect the weakening financial position of Transnet but the application of the GRE methodology.

Moody's Investors Service

- On the 1st October 2012, Moody's announced that Transnet's investment grade rating remained unchanged at A3 confirming the company's solid credit profile and investor confidence in the company in delivering on its mandate. This ratings update follows the downgrading of South Africa's government bond rating to Baa1 from A3.
- Foreign and local currency ratings at 31 March 2013 of A3/Aa3.za/Prime-2 remain unchanged with a negative outlook despite the weakening of the South African government's credit profile.

Moody's decision not to downgrade Transnet's rating reflects the company's track record of successfully implementing more than 90 per cent. of its budgeted capital investment programme to date.

40. Subsequent Events

Transnet has received a Notice of Motion in terms of which two individual applicants have applied to the North Gauteng High Court to institute a class action against seven respondents, including Transnet. Transnet is currently reviewing the application which has no merit.

No other events have occurred after the reporting period date that would have a material impact on reported results.

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