VOLUME 2

INTEGRATED REPORT 2021

DELIVERING INFRASTRUCTURE FOR ECONOMIC GROWTH

ANNUAL FINANCIAL STATEMENTS

SANRAL

BUILDING SOUTH AFRICA THROUGH BETTER ROADS

The South African National Roads Agency SOC Limited
Integrated Report 2021

The 2020/21 Integrated Report of the South African National Roads Agency SOC Limited (SANRAL) covers the period 1 April 2020 to 31 March 2021 and describes how the Agency gave effect to its statutory mandate during this period.

The report is available in print and electronic formats and is presented in two volumes:

- **Volume 1:** Integrated Report is a narrative and statistical description of major developments during the year and of value generated in various ways.
- **Volume 2:** Annual Financial Statements contain the corporate governance report in addition to the financial statements. In selecting qualitative and quantitative information for the report, the Agency has strived to be concise but reasonably comprehensive and has followed the principle of materiality – content that shows the Agency's value creation in the short, medium and long term.

The South African National Roads Agency SOC Limited | Reg no: 1998/009584/30

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CORPORATE GOVERNANCE

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1. CORPORATE GOVERNANCE

SANRAL, led by its Board of Directors, is fully committed to good corporate governance as it delivers on its mandate of providing an effective national road network using state and investor funding, to safeguard the interests of all its stakeholders and to promote the long-term sustainability of its assets.

SANRAL reports to Parliament through the Portfolio Committee on Transport which met with the Board and Management of SANRAL two times during FY2020/21. The Committee interrogated SANRAL's performance during 2019/20 and reviewed its Annual Performance Plan for the forthcoming year. In addition, Parliament received SANRAL's Integrated Report 2020 which included the annual financial statements, the audit report and performance reports for 2019/20 (Volume 2). Volume 1 of the Report was a narrative and statistical description of major developments during the year and of value generated in various ways through its operations.

The Minister of Transport is SANRAL's Executive Authority, given that SANRAL is an agency of the Department of Transport. The Shareholder Compact signed annually by the Minister and Chairperson of the Board, on behalf of the Board, encapsulates the roles and responsibilities of the Executive Authority and the Board. SANRAL submits various reports to the Minister of Transport including the Integrated Report, the Strategic Plan, the Annual Performance Plan, the quarterly reports and the annual budget. The Chairperson of the Board communicates with the Minister primarily, on behalf of the organisation, on various matters of importance including approvals required from the Minister as per legislation and the participation of the Minister at SANRAL's events. The Minister, Mr F Mbalula, MP, was unable to attend SANRAL's Shareholder meeting which served as the Annual General Meeting on 30 October 2020 but the Deputy Minister, Ms D Magadzi, attended as his proxy.

1. KING IV DECLARATION

The company subscribes to applicable governance legislation and guidelines including King IV principles, which guide good corporate governance practices within the organisation. SANRAL applies the first 16 principles of King IV, which are relevant to the agency in the conduct of its business, striving to ensure efficient service delivery and to achieve the governance outcomes of an ethical culture, good performance, effective control and legitimacy.

The intent of the Board and the management team is to run the business ethically and efficiently. This section explains the application of each of the 16 principles and demonstrates the quality of governance practice in SANRAL.

1.1 Leadership, ethics and corporate citizenship

Leadership

Principle 1: The accounting authority (Board) should lead ethically and effectively.

The tone for ethical business practice is set by the Board and it filters through every level of the organisation. This includes the imperatives of transparency and fairness in all of SANRAL's decisions, the avoidance of conflicts of interest across the organisation and the maintenance of clean procurement processes as it pursues its core function of the award and management of large road projects across the national road network. The functioning and conduct of the Board and its committees are guided by Board and committee charters and the Board Code of Conduct.

SANRAL's Delegation of Authority Framework (DoA) has undergone an in-depth review during 2019/20 and 2020/21, and a Board-approved version was in place effective 1 December 2020. The revised DoA ensures that the Board is not involved in the procurement function, or the award of any contracts: that function has been delegated to bid adjudication committees whose members are employees. The award will only be escalated to the Board in the rare cases where the Management Bid Adjudication Committee vetoes a recommendation by the Bid Evaluation Committee or the Regional Bid Adjudication Committee. There was no such instance during the financial year since 1 December 2020. The Committee charters were also reviewed and aligned with the DoA and approved during 2020/21. The Board Charter was reviewed after receipt of a document from the National Department of Transport on the nomination and appointment of board members by the Minister of Transport.

The importance of acting in the best interests of SANRAL is a key principle that informs the conduct of the Board members. Any conflicts of interest are managed through the annual disclosure of interests in writing and additionally by disclosures by the Board and Management at every Board and committee meeting. In terms of the Board Charter and Code of Conduct, Board members may not contract for any services with SANRAL in their individual capacities.

The Board's practice of declaration of interests and avoidance of any conflicts of interests are detailed in the Board Charter which is on SANRAL's website. In addition, SANRAL's Anti-Fraud and Corruption Policy, which is applicable to the Board and employees is also on the website. To the best of SANRAL's knowledge and given the practice of declaration of interests at every Board or Committee meeting, SANRAL is not aware of and has no record of any conflicts of interests involving the Board members, adviser to the Audit and Risk Committee or Management.

The Board has also approved a Management of Prominent and Influential Persons (PIP) Policy which has also been published on SANRAL's website (further details under Principle 2 below).

The Board is provided with training or workshops, as required, with respect to governance and the core functions of SANRAL. This is to enable it to fulfill its main functions of driving good governance practice, setting the strategic direction, monitoring implementation and performance, overseeing ongoing, effective risk management and ensuring timely and relevant disclosure of performance across the three areas of society, the economy and the environment.

Organisational ethics

Principle 2: The accounting authority should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The ethical conduct of SANRAL's employees is guided by a code of conduct. The upholding of values such as integrity, accountability, responsibility, fairness, confidentiality, transparency, independence of decisions and clean procurement processes are part of the code of conduct which become binding on signature of the employment contract. Interpersonal respect, loyalty to the organisation, and respect for diversity are values which are defended vigorously by the SANRAL team.

In addition, the Board approves SANRAL's policies following their review by Management. These policies govern staff conduct and processes in relation to the various functions within the organisation. The adherence to and implementation of policies is the responsibility of Management, with assurance provided by internal audit. Important principles of conduct include the annual declaration of interests, with a requirement to provide updates as and when there may be changes to the declarations or potential conflicts of interest. Such declaration of interests is required of the Board, employees and suppliers (as part of the tender process).

There is, in addition, a SANRAL supply chain practitioners' code of conduct, which all supply chain practitioners sign on an annual basis. SANRAL does not provide loans to any employee, related party or prominent and influential person. Board members and employees are also required to sign their disclosures drawn from the CIPC website annually. Induction presentations to employees and the annual governance, risk and compliance roadshows to all employees reinforce the importance of ethical behaviour.

Important policies include the Anti-Fraud and Corruption Policy and Risk Management Policy. SANRAL has an independently monitored fraud hotline for use by employees and external parties, including service providers, to report suspected fraud anonymously. SANRAL has a zero-gifts policy – employees may not accept any gifts offered to them by service providers. This is to ensure that independence and transparency in decision-making are not compromised.

All supplier contracts include the need to disclose any conflicting interests and connections to political or other influential persons. Employees serving as bid specification, evaluation and adjudication committee members for the evaluation and award of bids are also required to disclose any conflict of interest and recuse themselves from any further involvement. The same goes for any directors involved in the award of major contracts, which instances are very rare following the approval of the Delegation of Approval Framework effective 1 December 2020.

Should any clause of the code of conduct or policies affecting conduct be breached, consequence management, which may include disciplinary action, is mandatory.

The recruitment and appointment of employees is preceded by the necessary checks on personal credentials, criminal history, credit standing, qualifications and references.

The Management of Prominent and/or Influential Persons Policy (PIP Policy) requires SANRAL to evaluate every business relationship to determine whether there is any reason to conclude that it brings higher risk of questionable association, perception of corrupt dealings, conflict of interest or potential abuse leading to fraudulent financial transactions, money laundering, terrorist financing etc. The Policy has been placed on SANRAL's website. The purpose of the Policy is to provide a framework and a process within which the acceptance, maintenance and monitoring of business relationships with prominent, influential stakeholders who have domestic and/or foreign influence are managed by SANRAL. This is done in order to mitigate SANRAL's perceived, association, reputational, operational or legal risk, as it strives to foster and maintain fair and transparent business relations with relevant stakeholders.

SANRAL is in the process of enlisting a service provider to investigate, verify and confirm the information provided by potential service providers in the PIP declarations included in the supply chain management related disclosures.

Corporate citizenship

Principle 3: The accounting authority should ensure that the organisation is, and is seen to be, a responsible corporate citizen.

The importance of the national road transport system cannot be understated as it forms the core of the nation's road network enabling mobility, access to economic opportunities, trade and is critical for supporting economic growth and development. SANRAL as an agency of the Department of Transport is responsible for the financing, management, control, planning, development, maintenance and rehabilitation of the South African national road network. The role of SANRAL within the country's transport system is significant as the national roads link cities, provinces and economic nodes and enable trade and mobility which lead to economic growth. Striving to continuously improve the quality of the road infrastructure and, within its ability, the operating conditions for the user, remain crucial to SANRAL.

SANRAL's mandate to manage South Africa's national road network offers it opportunities to contribute to the well-being, development and empowerment of the country and its citizens through the provision of an effective national road network and by driving internal and external transformation initiatives. Internally, these include promoting diversity and the provision of skills development opportunities to employees. External initiatives include the development of SMMEs and communities through job creation, enterprise development opportunities and skills development programmes. SANRAL also sponsors scholarships, bursaries and partnerships with universities and TVET colleges and facilitates internships. Site or contractor staff are provided project-related training in business management and technical skills. Community development projects ensure the enhancement of access and mobility in rural communities and road safety related projects improve the safety on roads through pedestrian bridges, access roads, etc. SANRAL's efforts as a corporate citizen can be assessed by its contribution in the following areas:

(a) Employees - SANRAL endeavours to be an employer which values its employees.

Employment equity: SANRAL has a three-year Employment Equity Plan, the implementation of which is monitored by the Social, Ethics and Transformation Committee (SETC). The achievement of targets is reported to the Board and the Minister of Transport annually. There can be no compromise on the practice of and respect for equity in diversity and the provision of skills development opportunities to all employees.

Fair remuneration: Measures to ensure fair remuneration include a yearly salary review process, when an external company does an industry comparison to ensure that SANRAL's remuneration structure is in line with the market. The Board approves the yearly remuneration adjustment levels which is performance-based on non-unionised staff. Another measure is the evaluation and grading of positions to ensure that incumbents within a particular scope of work are remunerated fairly, based on experience and skills.

Safety, health and dignity: SANRAL subscribes to a wellness programme in the interests of employees. SANRAL ensures that contracts valued above R40m are registered with the Department of Labour and an occupational health and safety practitioner is appointed to oversee the site and ensure that all plans comply with safety regulations. The safety of employees within SANRAL's offices and that of service provider staff and the public at project sites and site offices are of paramount importance to SANRAL.

Development of employees: A workplace skills plan, which is derived from each employee's development plan, determines the career development path for each staff member. There are other benefits, such as internal bursaries, offered to staff who wish to further their education.

(b) Economy - The national road network is an economically strategic one and is critical for the mobility of people and goods across the nation. The infrastructure must be maintained in optimal condition to provide a satisfactory road user experience and to service the South African economy effectively. SANRAL endeavours to provide the nation with an effective network of well-constructed and maintained national roads and, in doing so, seeks to promote transformation through an inclusive, well-structured procurement process.

The 14 Point Plan which encompasses the principles to create an inclusive process, was developed as a tactical response to growing demands for empowerment opportunities and as an instrument to tactically advance SANRAL's Transformation Policy. All contracts stipulate a minimum percentage of local employment and training on the job, which help in the development of communities. Contractors are compelled to use local SMMEs where feasible. They must comply with all applicable legislation and adhere to the basic conditions of employment.

Moreover, SANRAL also provides opportunities to SMMEs and small contractors to work on all the agency's projects. This is achieved by the structuring (unbundling) of projects into smaller packages to create opportunities for the lower graded CIDB entities, such as for grades 5CE to 7CE. The SMMEs (largely from grade 1CE to Grade 5CE) benefit from the increased mandatory subcontracting i.e. the 30% minimum subcontracting as per the 2017 PPPFA regulations.

SANRAL's Transformation Policy was launched by the Minister of Transport in September 2017. It was debated and consulted with various stakeholders prior to implementation. The document was also canvassed with government stakeholders for their recommendations and views. Several measures have been implemented to fast-track transformation within the construction industry such as reducing the size of projects where possible to create opportunities for the contractors with lower CIDB grading, entering into MOUs with the equipment manufacturers/suppliers in order for the SMMEs to build up equipment of their own which would enable them to tender at lower unit rates and thus increase their competitiveness, MOUs with DFIs (Development Finance Institution) and commercial banks for new contractors to obtain financing at more competitive interest rates etc. More such measures are under consideration for implementation, some of which require government's buy-in. MOUs have been entered into with training and mentoring service providers to train and mentor the small contractors in the effective and efficient operation and management of their respective entities.

(c) Environment - SANRAL's environmental ethos is one of integrated environmental management where we strive for a balance between road development and environmental sustainability. SANRAL reports on its activities aimed at ensuring environmental sustainability in Volume 1 of this Integrated Report under 'Natural Capital'. The reporting covers SANRAL's performance with regard to legislative requirements, governance and risk management arrangements in the environmental management realm. It covers environmental authorisations received for key road projects as well as initiatives aimed at climate change mitigation and adaptation. It also encompasses reporting on progress made toward the measurement of sustainability goals and targets as may be set from time to time.

(d) Society - SANRAL provides scholarships, external bursaries and internships as a contribution to the national skills development objective. SANRAL also supports the Chair in Maths, Natural Science and Technology Education at the University of the Free State, the Chair in Pavement Engineering at the University of Stellenbosch and the Chair in Transport Planning at the University of Cape Town. SANRAL's Technical Excellence Academy in Port Elizabeth provides the required training to accelerate professional engineering registration.

The impact of SANRAL's projects on society is carefully monitored and discussed with the communities they affect through regular, planned stakeholder engagements. Every project, whether a large multi-billion rand highway or a modest community development road, has a positive developmental impact on society. Roads provide access and mobility, thus enabling economic activity and creating employment opportunities, business opportunities for the construction industry including SMMEs within the sector, skills development opportunities through on-site training and general upliftment of the quality of life. SANRAL provides safe community mobility and access through pedestrian bridges, access roads and such other safety features. Moreover, a fair proportion of the project value is injected into the local community in the form of wages, purchase of local materials, supplies and services.

Targets pertaining to some of the above performance areas have been included in the Annual Performance Plan and performance against the Plan is monitored regularly, either quarterly or annually, as appropriate.

1.2 Strategy, Performance and Reporting

Strategy and performance

Principle 4: The accounting authority should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value chain.

The Board is responsible for setting the organisation's strategic direction, which is aligned to the National Development Plan and government priorities. The Shareholder's Compact requires that the Board shall integrate any governmental policy relating to the agency, into its Strategic Plan, key performance measures and borrowing programme in order to execute its legislative mandate. The provision of sustainable development opportunities for small and developing contractors and service providers and for communities affected by SANRAL's projects are key strategic outcomes aimed for.

In 2017/18, the Board approved SANRAL's strategic framework, Horizon 2030. It was launched by the Minister of Transport in September 2017. Management's efforts are aimed at achieving the strategic objectives set out in this framework through concrete initiatives that are listed in the annual performance plan of the company.

The Board reviews the risks which could influence the achievement of strategic objectives and is accountable for risk management.

The 10 strategic objectives have been translated into key performance indicators (KPIs) with annual targets, which are monitored quarterly, semi-annually or annually. The KPIs measure performance of important aspects of SANRAL's business, such as road asset performance, road safety, transformation efforts, financial efficiency, research and stakeholder relations. The performance report for 2020/21 can be found on pages 24 to 29. These KPIs are also linked to the individual performance agreements of employees.

Reporting

Principle 5: The accounting authority should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.

SANRAL's Integrated Report, which includes the annual financial statements, is published on the SANRAL website. The Report includes governance disclosures with respect to the King IV Code, as recommended under each principle in the Code.

The Integrated Report provides information on SANRAL's contribution to the national road infrastructure, transformation and empowerment opportunities, performance with respect to pre-determined targets in key performance areas and financial performance.

The Board, supported by the Audit and Risk Committee, oversees the compilation of the Integrated Report including the Annual Financial Statements and the related accounting policies and materiality thresholds used for financial reporting. The Board has used reports from various assurance providers to ensure the integrity of the reports.

1.3 Governing Structures and Delegation

Primary role and responsibilities of the accounting authority

Principle 6: The accounting authority should serve as the focal point and custodian of corporate governance in the organisation.

The Board's role and responsibilities are detailed in the Board Charter. Its functions include the setting of strategic direction, the approval of policies governing operations, the oversight of implementation, and accountability through appropriate disclosure in the Integrated Report and through performance management and reporting. The Board is comfortable that it has fulfilled its responsibilities with regard to key themes such as good corporate governance, fiscal discipline, improved audit outcomes, compliance and policy coherence which were imperatives pursued by the Board during FY 2020/21, as has been the practice over the years.

Given the COVID-19 lockdown restrictions and related challenges, SANRAL was under pressure to put out projects despite the limitations which resulted in the award of contracts to the value of R25bn during 2020/21. SANRAL and its stakeholders recognise the contribution and role of the Agency's mandate as a catalyst to drive economic development and job opportunities through the provision and maintenance of critical infrastructure.

The Board held seventeen meetings during the year, including twelve special board meetings. with attendance as indicated in the table below:

Director	Position	18 Apr 2020 Special Board meeting	29 Apr 2020 Special Board meeting	4 Jun 2020 Board meeting	13 Jul 2020 Special Board meeting	30 Jul 2020 Special Board meeting	18 Aug 2020 Board meeting
Mr T Mhambi	Chairperson, Non-executive	√	√	√	√	√	√
Ms A Halstead	Non-executive	√	√	√	√	√	√
Mr R Haswell	Non-executive	√	√	√	√	√	√
Ms L Madlala	Non- executive	√	√	√	√	√	√
Mr T Matosa	Non-executive	√	√	√	√	√	√
Mr P Mohan	Non-executive	√	√	√	√	-	-
Mr A Moemi	Non-executive	-	-	-	-	√	√
Mr S Macozoma	CEO, executive	√	√	√	√	√	√

√ - Present A – Absent - – Not a member

Director	Position	31 Aug 2020 Special Board meeting	8 Oct 2020 Special Board meeting	26 Oct 2020 Board meeting	3 Nov Special Board meeting	5 Nov Special Board meeting	25 Nov 2020 Board meeting	14 Dec 2020 Board meeting
Mr T Mhambi	Chairperson, Non-executive	√	√	√	√	√	√	√
Ms A Halstead	Non-executive	√	√	√	√	√	√	-
Mr R Haswell	Non-executive	√	√	√	√	√	√	√
Ms L Madlala	Non- executive	√	√	√	√	√	√	√
Mr T Matosa	Non-executive	√	√	√	√	√	√	√
Mr P Mohan	Non-executive	-	-	-	-	-	-	-
Mr A Moemi	Non-executive	A	A	A	A	A	A	A
Mr S Macozoma	CEO, executive	√	√	√	√	A	√	√

√ - Present A – Absent - – Not a member

Director	Position	28 Jan 2021 Board meeting	25 Feb 2021 Special Board meeting	18 Mar 2021 Board meeting	30 Mar 2021 Special Board meeting
Mr T Mhambi	Chairperson, Non-executive	√	√	√	√
Ms A Halstead	Non-executive	-	-	-	-
Mr R Haswell	Non-executive	√	√	√	√
Ms L Madlala	Non- executive	√	√	√	√
Mr T Matosa	Non-executive	√	√	√	√
Mr P Mohan	Non-executive	-	-	-	-
Mr A Moemi	Non-executive	A	A	A	A
Mr S Macozoma	CEO, executive	√	√	√	√

√ - Present A – Absent - – Not a member

The shareholder meeting (AGM) for 2020 was held on 30 October 2020.

Composition of the accounting authority

Principle 7: The accounting authority should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

SANRAL's sole shareholder is the State, represented by the Minister of Transport. Other than the representative from National Treasury, who is nominated by the Minister of Finance and appointed by the Minister of Transport, the non-executive and independent Board members are nominated and appointed by the Minister of Transport in terms of the SANRAL Act, No. 7 of 1998, as amended.

The Board as at 31 March 2021 comprised six members, as listed on pages 20 and 21 in Volume 1. The Chairperson: Mr T Mhambi, Mr R Haswell, Ms L Madlala and Mr T Matosa are independent, non-executive members and were appointed on 1 September 2018.

The non-executive members were:

Ms Avril Halstead, a non-executive member representing National Treasury – was appointed on 27 May 2016 but resigned on 30 November 2020.

Mr Prasanth Mohan representing the Department of Transport and appointed on 1 April 2019 but was retired by the Minister on 14 July 2020.

Mr Alec Moemi, representing the Department of Transport, was appointed by the Minister of Transport effective 14 July 2020 to serve on the Board.

The CEO is the only executive member of the Board.

The SANRAL Act provides for a total of 8 Board members and the Minister of Transport has been requested to appoint another non-executive, independent member.

All non-executive board members serve for a maximum of two terms of three years, in terms of section 13(1)(a) of the SANRAL Act.

The Board members included engineering professionals, an employee relations expert, a finance professional and experts with knowledge of corporate governance and the public sector. The Board is of the view that this is an appropriate mix of skills that are relevant to SANRAL. The Board has appointed an external adviser to assist the Audit and Risk Committee with specialist skills in this area. However, the Board is also of the view that its size is too small, which places limitations on the composition of the committees. The number of members is limited by the SANRAL Act and the Board has engaged the Minister of Transport to effect amendments in this regard. The gender composition of the Board as at 31 March 2021 was 83% men and 16% women.

The Chairperson is an independent, non-executive member of the Board. The SANRAL Act does not provide for a lead independent member. The Board appoints another voting member to serve as chair, if the Chairperson is absent from any meeting. The Chairperson must appoint an independent, non-executive member of the Board as Acting Chairperson should he be absent for any period of time due to illness, vacation, travel etc.

Board Members

Director	Position on the SANRAL Board	Age	Length of service on Board	Other significant board memberships, shareholdings and/or professional positions
Mr T Mhambi	Chairperson, non-executive and independent	58	2 years and 7 months	Akha-Aga Strategic Support & Advisory Services Group, ECM Trading Solutions, Penpoint Trading and Deliciano, Multipla Business Investments, Luxland Hotels, Lalaland Hotels

Mr Mhambi has experience in the fields of education, public administration and policy and strategy development for organisations in a variety of sectors, including education, development, government and insurance. After long service as a civil servant, Mr Mhambi moved into private sector business and consulting in the areas of corporate strategy development and corporate governance. He has latterly entered the retail business space. He has served on other public and private sector boards.

Mr R Haswell	Non-executive, independent	77	2 years and 7 months	Ezemvelo KZN Wildlife

Alderman Haswell has twenty-six years of experience in the municipal environment. He served as both the Mayor and City Manager of the Msunduzi Municipality, who appointed him as an alderman in 1994. He is committed to sustainable development for all sectors within the economy.

Ms L Madlala	Non-executive, independent	47	2 years and 7 months	Mzuzu Group including Mzuzu Solutions and Mzuzu Properties

Ms Madlala has a civil engineering background with corporate governance experience in both the public and private sectors. She has served on private and public sector boards and has more than 21 years' experience as a civil engineer. Her core competencies include infrastructure development and project and programme management. She currently heads up her own group of companies.

Mr T Matosa	Non-executive, independent	53	2 years and 7 months	Thahlakwena Trading Enterprise' Chitepata Enterprise (Pty) Ltd

Mr Matosa has held leadership positions in various trade unions and has extensive experience in labour economics, local government administration, and governance of national and international unions.

Mr S Macozoma	CEO, executive	45	4 years and 4 months	None

Following 10 years at the Council for Scientific and Industrial Research's Building and Construction Technology Division, five as a trainee engineer and five as a research engineer, Mr Macozoma joined the Department of Transport in 2003. As Chief Director from 2005, he was responsible for road, rail and aviation infrastructure. He served on the 2010 FIFA World Cup Organising Committee from 2007, where he was responsible for transport, logistics, accommodation and hospitality. He was Executive for Strategy and Business Development at Sizwe IT Group in 2011. He then served as MD of the Johannesburg Roads Agency from 2012 and as CEO of the Electronic Toll Concession Ltd in 2016. He was Chairman of the Airports Company South Africa in 2015. He joined SANRAL as CEO in December 2016. Mr Macozoma's experience in the management of transport authorities combined with his engineering, strategy development and implementation background are invaluable in his role as CEO of SANRAL.

Ms A Halstead	Non-executive	44	4 years and 5 months	Chief Director at National Treasury

Since 2009, Ms Halstead was a Chief Director at National Treasury, where she was responsible for overseeing approximately 40 of the country's largest state-owned enterprises (SOEs). Ms Halstead was seconded by National Treasury to the Department of Public Enterprises where she was responsible for the SOEs in the transport and defence sectors. Prior to joining government, she worked for McKinsey & Company, Old Mutual and Wipcapital, a subsidiary of Wiphold. Her expertise is in the areas of SOE governance, financing and infrastructure investment.

Mr P Mohan	Non-executive	50	1 year and 4 months	Chief Director, Roads Transport in the Department of Transport

As Chief Director, Roads Transport in the Department of Transport, Mr Mohan's role encompassed responsibility in the roads administration office with a particular focus on road infrastructure and industry development.

Mr A Moemi	Non-executive	47	9 months	DG of the Department of Transport

As Director General of the Department of Transport, Mr Moemi's role is that of the Accounting Officer and Head of the Department. He has to operate at a high level of management which requires regular interaction with political office bearers. His functions include oversight of the functioning of the Department, maintaining effective financial and risk management systems and internal controls and an appropriate procurement system within the Department.

Experience of external adviser to the Audit and Risk Committee (ARC):

Advisor	Position in SANRAL	Age	Length of service as advisor	Other significant board membership, shareholdings and/ or professional positions
Mr Thami Zikode CA(SA), RA, MBA	Adviser – Audit and Risk Committee	47	2 years	CAE of the SABC

Mr Zikode commenced service as an Adviser to SANRAL's Audit and Risk Committee (ARC) on 1 April 2019 and has been of immense value to the Committee and the Board with providing advice on various matters relating to internal controls and financial management particularly. He is an ethical, strategic thinking and performance-solution driven leader with proven excellent accounting and audit knowledge. Mr Zikode has over 17 years' experience in the public sector, with over seven years at executive level, and with a good track record and strategic insights on public sector strategic engagements. His considerable experience in auditing, financial management, accounting, internal controls, financial and risk analysis in the public sector has proven to be vital for the effective functioning of the ARC.

Committees of the accounting authority

Principle 8: The accounting authority should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties.

Section 16 (1) of the SANRAL Act states that "the Board may from time to time appoint one or more committees to assist the Board in performing its functions".

The Board has established four committees to assist it in discharging its duties. These are the Contracts Committee, the Audit and Risk Committee, the Social, Ethics and Transformation Committee and the Assets and Liabilities Committee.

The committees do not assume any management or operational functions but have oversight of the functions which fall within their area of responsibility as per their respective charters and make recommendations to the Board in this regard. All committees have the responsibility of monitoring the management of risks within their area of oversight.

The Board has agreed that a Nominations Committee may be established on an ad-hoc basis as required.

All committees function in accordance with the mandate and delegations determined by the Board, as detailed in their respective charters. The charters were updated and aligned with the updated and approved Delegation of Authority Framework during the year.

The Board appoints the members of committees based on the skills required to fulfil the functions of the committees. The tenure of the committees is concurrent with that of the Board – three years as per the SANRAL Act, as amended. The Board may reconstitute the membership of committees during its tenure depending on the requirement or any changes to the members on the Board. The Board may appoint external, independent members (as permitted by law) or advisors to the committees should their skills be required for the effective functioning of the committees. Such appointments are always subject to an open and competitive recruitment process. An external adviser has been appointed to assist the Audit and Risk Committee.

Contracts Committee

The Contracts Committee was responsible for reviewing the recommendations from the Management Bid Adjudication Committee for the award of major contracts with a value exceeding R300m and making recommendations to the Board for approval. It also had oversight of all contracts awarded by SANRAL while monitoring that the SCM processes are inclusive of SANRAL's transformation initiatives in the construction industry and the empowerment of SMMEs and small contractors. The Committee reviewed the relevance and validity of the policies affecting the areas of SANRAL's operations over which it has oversight. Any proposed amendments are subject to approval by the Board.

During 2020/21, the Committee comprised three non-executive members: Ms Avril Halstead (chair), Mr Prasanth Mohan and the CEO until July 2020. Mr Mohan was replaced by the DG, Mr Moemi in July 2020, following which the Committee had only two members, Ms Halstead and the CEO. Mr Moemi was unavailable to serve on any committee. The Committee should have had three members but given that the Chair of the Board should not be a member of any committee and that members of the Audit and Risk Committee could not serve on the Committee to avoid a possible compromise of independence, the Board was unable to appoint a third member on the Committee. The final meeting of the Committee during the year was in October 2020 as Ms Halstead resigned from the Board in November 2020. The Board took over the functions of the Committee thereafter due to the scarcity of Board members to constitute the Committee adequately. The Board also decided to embark on a recruitment process, ongoing at year-end, to appoint an external committee member.

The Committee has not had external advisors or invitees who attended committee meetings regularly. The Committee Secretary attended committee meetings, as did the Engineering Executive, the Contracts Manager, the Legal Advisor, the CFO, the Risk Officer, the CAE and the Company Secretary, by invitation.

Key areas of focus during the year until October 2020 have been the consideration of large contracts for recommendation to the Board for award, the implementation of the Transformation Policy and the provision of opportunities for smaller contractors.

To note is that the Delegation of Authority Framework effective 1 December 2020 has delegated all procurement related functions to Management. The Committee will review reports from Management to ensure proper oversight of the supply chain management and procurement functions on behalf of the Board. It is only in cases where the Contracts Committee refers matters of importance or concern to the Board that the Board would review matters related to these functions. Further, contract awards will only be escalated to the Board in the rare cases where the Management Bid Adjudication Committee vetoes a recommendation by the Bid Evaluation Committee or the Regional Bid Adjudication Committee. There was no such instance during the financial year since 1 December 2020. As a further measure of oversight, Internal Audit carried out proactive assurance reviews for all contracts of value greater than R1bn during the financial year and any matters of concern were escalated to the Board. Once the Committee is reinstated, such matters will be escalated to the Committee.

Four meetings were held during the year and attendance at these is indicated in the table below:

Members	Position	23 Apr 2020	25 May 2020	07 Aug 2020	06 Oct 2020
Ms A Halstead	Chairperson, non-executive	√	√	√	√
Mr S Macozoma	CEO, executive	√	√	√	√
Mr P Mohan	Member, non-executive	√	√	-	-

√: Present -: Not a member

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during 2020/21.

Audit and Risk Committee

The Audit and Risk Committee (ARC) functions in terms of its charter which details the functions of the committee as:

- Independent oversight of the Annual Integrated Report and the annual financial statements.
- Independent oversight of some assurance providers, internal financial controls, internal audit function and external audit.
- Oversight of IT governance.
- Oversight of compliance, risk management and anti-fraud and corruption measures.
- Other functions such as the review of the annual performance plan, organisational performance report, annual budget, legal reports, public liability claims, etc.

Importantly, the ARC oversees risk governance within SANRAL. It reviews reports on the strategic risk register and the fraud hotline at least once every quarter. The committee leads an annual risk session for the Board. This is an opportunity for Board members to identify new risks and review the performance of internal controls implemented in the previous financial period. In addition, the Committee reviews the relevance and validity of the policies affecting the areas of SANRAL's operations over which it has oversight. Any proposed amendments are subject to approval by the Board.

The three committee members who served on the Committee during 2020/21 were: Mr R Haswell (chair), Mr T Matosa and Ms L Madlala. All are independent, non-executive directors.

The Board appointed an adviser to the committee effective 1 April 2019. Mr Thamsanqa Zikode supported and strengthened the committee's financial and auditing skills and experience. He is also an expert in internal controls and risk analysis.

The committee met in-committee, as required, with the internal and external auditors, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.

The internal audit team and the external audit team attend all ARC meetings by invitation as does the Committee Secretary. The CEO, CFO, the Management Accountant, the Engineering Executive, the Risk Manager, the Company Secretary and the Chief Audit Executive also attend by invitation, as do other managers who have matters on the agenda. Key areas of focus during the year included the oversight of the internal audit function and the audit reports, audits related to GFIP, risk management, IT governance, reporting and the management and follow-up of audit findings by operational teams.

Six meetings were held during the year and the attendance of those meetings is shown in the tables below:

Member	Position	26 May 2020	14 Jul 2020	23 Sep 2020 Special meeting	29 Oct 2020	19 Jan 2021	24 Mar 2021
Mr R Haswell	Chairperson, non-executive and independent	√	√	√	√	√	√
Ms L Madlala	Member, non-executive, and independent	√	√	√	√	√	√
Mr T Matosa	Member, non-executive and independent	√	√	√	√	√	√

√ - Present A - Absent

The Report of the Audit and Risk Committee, included in the Integrated Report on pages 30 to 32 provides detailed information on the committee's activities and its governance responsibilities.

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during 2020/2021.

Committee for nomination of members of accounting authority

The Board has agreed that a Nominations Committee be appointed as and when required. The Committee has a charter which has been approved by the Board previously.

The nomination and appointment of the non-executive members of the Board is the responsibility of the Minister of Transport, as legislated in the SANRAL Act. The representative from National Treasury on the Board is nominated by the Minister of Finance.

There is a vacancy for an independent, non-executive member of the Board for which the Board has requested the Minister that a chartered accountant be appointed because that is a skill that the Board believes is lacking on the current Board.

The Standard Operations Procedure relating to the processes followed in relation to the nomination and appointment of Board Members by the Department and the Minister of Transport by the end of June 2021 was provided by the National Department of Transport on 30 June 2021. It has been placed on SANRAL's website.

Social, Ethics and Transformation Committee

SANRAL has a Social, Ethics and Transformation Committee (SETC). It functions in terms of its charter and its responsibilities are governed by Regulation 43 of the Companies Act. These include oversight of:

- Labour and employment matters, including the review of the remuneration policy and annual remuneration adjustments.
- Social and economic development functions, including transformation, skills development, employment equity and good corporate citizenship endeavours.
- Stakeholder relations.
- Environmental, health and safety matters.

The activities of the SETC and key areas of focus are guided by an annual work plan to ensure that all the responsibilities are monitored effectively. Moreover, SANRAL has a remuneration service provider, which advises on employee remuneration and rewards, including annual salary adjustments for various employee grades every year. The remuneration and adjustments are based on an annual remuneration survey. Moreover, the proposals received from the Union with respect to staff who are members are considered for recommendation to the Board by the Committee.

The Committee reviews the relevance and validity of the policies affecting the areas of SANRAL's operations over which it has oversight. Any proposed amendments are subject to approval by the Board.

The committee consisted of three non-executive members as at 31 March 2021: Mr T Matosa (chair), Mr R Haswell and Ms L Madlala.

The committee held five meetings during 2020/2021 and attendance is indicated below:

Member	Position	21 Jul 2020	31 Aug 2020 Special SETC	15 Oct 2020	26 Jan 2021 Special SETC	23 Feb 2021
Mr T Matosa	Chairperson, non-executive and independent	√	√	√	√	√
Mr R Haswell	Member, non-executive, and independent	√	√	√	√	√
Ms L Madlala	Member, non-executive, and independent	√	√	√	√	√

√ - Present A - Absent

The committee does not have any advisors or external invitees who attend the committee meetings regularly.

The Committee Secretary attends every meeting. The CEO, the Acting Business Operations Executive, the Transformation Manager, the Company Secretary and other managers with matters on the agenda attend by invitation.

The committee provides a report on its functions and activities to the shareholder meeting which serves as the Annual General Meeting.

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during the financial year 2020/21.

The Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCo) oversees SANRAL's borrowing activities and its property and financial asset portfolio. It monitors the implementation of policies and controls governing SANRAL's financial risk management with respect to liquidity, investments, interest rates, and credit. The Committee, which operates in terms of a charter, sets risk management parameters for each risk category and monitors compliance. Provisions of the Treasury Policy and Control Manual regulate the activities of the Treasury Function, performance of which is monitored by ALCo. The Committee reviews the relevance and validity of the policies affecting the areas of SANRAL's operations over which it has oversight. Any proposed amendments are subject to approval by the Board.

The committee had two non-executive members: Ms A Halstead (chair) and Mr P Mohan, and the CEO as a member until July 2020. The Minister appointed Mr Moemi in place of Mr Mohan in July 2020. The Board appointed Ms Madlala as a member of the Committee on 8 October 2020, following which the members of the Committee were Ms Halstead (chair), the CEO and Ms Madlala. Following the resignation of Ms Halstead, the SANRAL Board had only six members and the Committee was constituted by only two members, the CEO and Ms Madlala.

The committee had no external advisors or regular invitees to its meetings. The Committee Secretary attended all meetings as did the Head of Treasury along with his team including the Financial Risk Manager. The CFO and the Company Secretary also attended by invitation.

The main areas of focus were SANRAL's property portfolio, borrowing plan and liquidity management.

The committee held five meetings during 2020/2021 and the attendance is listed below:

Director/ member	Position	19 May 2020	2 Jun 2020 Special ALCo	6 Aug 2020	20 Oct 2020	21 Jan 2021
Ms A Halstead	Chairperson, non-executive	√	√	√	√	-
Mr Macozoma	Member, executive	√	√	√	√	√
Ms L Madlala	Member, non-executive and independent	-	-	-	√	√
Mr P Mohan	Non-executive	√	√	-	-	-

√: Member, present A: Member, absent -: Not a member

The committee is satisfied that it fulfilled its responsibilities in accordance with its charter during the financial year 2020/21.

Evaluation of performance of the accounting authority

Principle 9: The accounting authority should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The performance of the Board and its committees was self-evaluated by the then newly constituted Board at the end of 2018/19. The assessment results were reviewed during 2019/20. A full Board evaluation by an independent service provider will be conducted during 2021/22.

The self-evaluation included areas such as setting strategy, board relationships, board skills, meetings and information provided, committees, and stakeholder management. The conclusion of the evaluation was that internal board relationships, communication and information provided were good. It was felt, however, that the Board was too small and this affected the skills set represented on the Board and the proper constitution of the committees because SANRAL's founding legislation restricted the board to a maximum of eight members. Areas identified for improvement from the self-assessment were the Board's role in enhancing stakeholder management, developing strategy and succession planning. The Board's involvement in stakeholder interactions increased during 2019/20 and that would have continued into 2020/21 but were hampered by the COVID-19 restrictions. The Board was satisfied that the evaluation had added value to its functioning and had increased members' awareness of their oversight role and fiduciary responsibilities.

SANRAL's policy and procedures relating to Board evaluation are detailed in the Board Charter which is on the SANRAL website.

Management appointments and delegations

Principle 10: The accounting authority should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

Delegation of powers

The Board has approved a Delegation of Authority Framework effective 1 December 2020, guided by the requirements of relevant legislation and general governance principles. This ensures adequate control and oversight on the part of the Board and at the same time ensures that the CEO has the authority to implement and execute the Board-approved strategy. The CEO, in turn, has delegated certain powers to the executive and management teams. Delegations of powers are routinely reviewed annually, and also when statutory changes necessitate their revision. The Board undertook an in-depth review of the Framework during 2019/20, which was concluded in November 2020. The Framework as approved in August 2018 continued to be effective until 30 November 2020. This review included obtaining legal advice, particularly with respect to the powers of committees and delegations relating to the procurement function.

The Board is satisfied that the SANRAL Delegation of Authority Framework contributes to role clarity and the effective exercise of authority and responsibilities.

Chief Executive Officer

The CEO commenced duties on 1 December 2016 on a five-year contract, as per the SANRAL Act. The CEO is appointed by the Minister of Transport on the recommendation of the Board. The appointment is made after careful assessment of the agency's requirements and an open and competitive recruitment process. The CEO reports to the Board. The Chairperson, in consultation with the Board, is responsible for the performance evaluation of the CEO and also for the recommendation of his annual salary adjustment to the Minister of Transport. His succession plan is overseen by the Board.

The CEO is accountable for the implementation and execution of the Board approved strategy and policies and for leading operational planning and implementation. His primary responsibilities include delivering on the KPIs captured in the Annual Performance Report, managing business operations, driving company strategy, maintaining technical excellence in delivery and addressing key company challenges.

The CEO has no other professional commitments.

Company Secretary

The Board has appointed a Company Secretary, as required by the Companies Act, No. 71 of 2008, as amended. The Company Secretary is not a member of the Board. Her performance is reviewed and evaluated by the Chairperson of the Board, in consultation with the Board, every year.

The Company Secretary, Ms Alice Mathew, is responsible for providing support to the Board and for developing systems and processes to enable the Board to function effectively. She provides guidance and support with regard to the powers, roles and responsibilities of the Board and its committees and on corporate governance matters, the Companies Act and other governance-related legislation. She serves as the main link between the Board and Management. The Company Secretary is considered by the Board to be fit and proper for the position and is qualified to perform the duties which are required of the role. She reports to the Board functionally, and to the CEO administratively.

Debt Officer

The Board, on the recommendation of the Assets and Liabilities Committee, appointed SANRAL's Treasury Manager, Mr Siyabonga Shange, as the Debt Officer effective 1 November 2020, as per the JSE's new Debt Listing Requirements which were published on 31 July 2020. The Board was satisfied with the competence, qualifications and experience of the Debt Officer on appointment.

1.4 Functional areas of governance

Risk governance

Principle 11: The accounting authority should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

The Board has approved the Risk Management Policy and Framework, which is reviewed annually.

SANRAL uses the ISO 31000 risk management methodology in assessing both strategic and operational risks. At a management level, SANRAL has a Risk Focus Group, which meets quarterly and reviews the operational risk profile of the organisation and monitors the associated internal control environment. The strategic risk profile is monitored by the Audit and Risk Committee (ARC) and the Board tracks the progress and effectiveness of risk management.

Strategic risks are identified annually during the Board Risk Workshop.

The key strategic risks identified in the strategic risk profile of the organisation are as follows:

- Uncertainty relating to the funding of key national road projects
- Negative public perceptions of SANRAL caused by factors that include anti-toll sentiments
- The slow rate of transformation in the construction industry
- Regulatory risks arising from the current SCM regulatory framework in the country

SANRAL follows a risk based internal audit approach and therefore uses the risk assessments produced by the Risk Management unit as part of the Audit Plan development process.

The annual governance, risk and compliance roadshow to all SANRAL's offices provides a reminder to employees about SANRAL's anti-fraud and corruption philosophy and its approach to risk management. It is also an opportunity to highlight new risks or weaknesses in risk management identified in order to improve the response.

The Board is ultimately accountable for risk management and the Audit and Risk Committee monitors risk management on an ongoing basis on behalf of the Board.

Technology and information governance

Principle 12: The accounting authority should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.

SANRAL recognises that governance of Information and Technology (I&T) should include the following:

- Assurance that IT delivers business value and delivers on its strategic goals
- Business and IT alignment by ensuring that goals, strategies and priorities are balanced between stakeholder and enterprise needs and IT
- Value creation by ensuring benefits delivery, risk optimization and resource optimization

The Board evaluates ICT related strategic options, directs senior management on the chosen options, approves policies and monitors achievement of the strategy. The use of ICT within SANRAL is in compliance with relevant laws

The operational and management objectives have been delegated to management and the ICT department as a guide to address the following:

- Overall organisation, strategy and supporting activities for I&T
- Definition, acquisition and implementation of I&T solutions and their integration in business processes
- Operational delivery and support of I&T services including cyber security
- Performance monitoring and conformance of I&T with internal performance targets, internal control objectives and external requirements

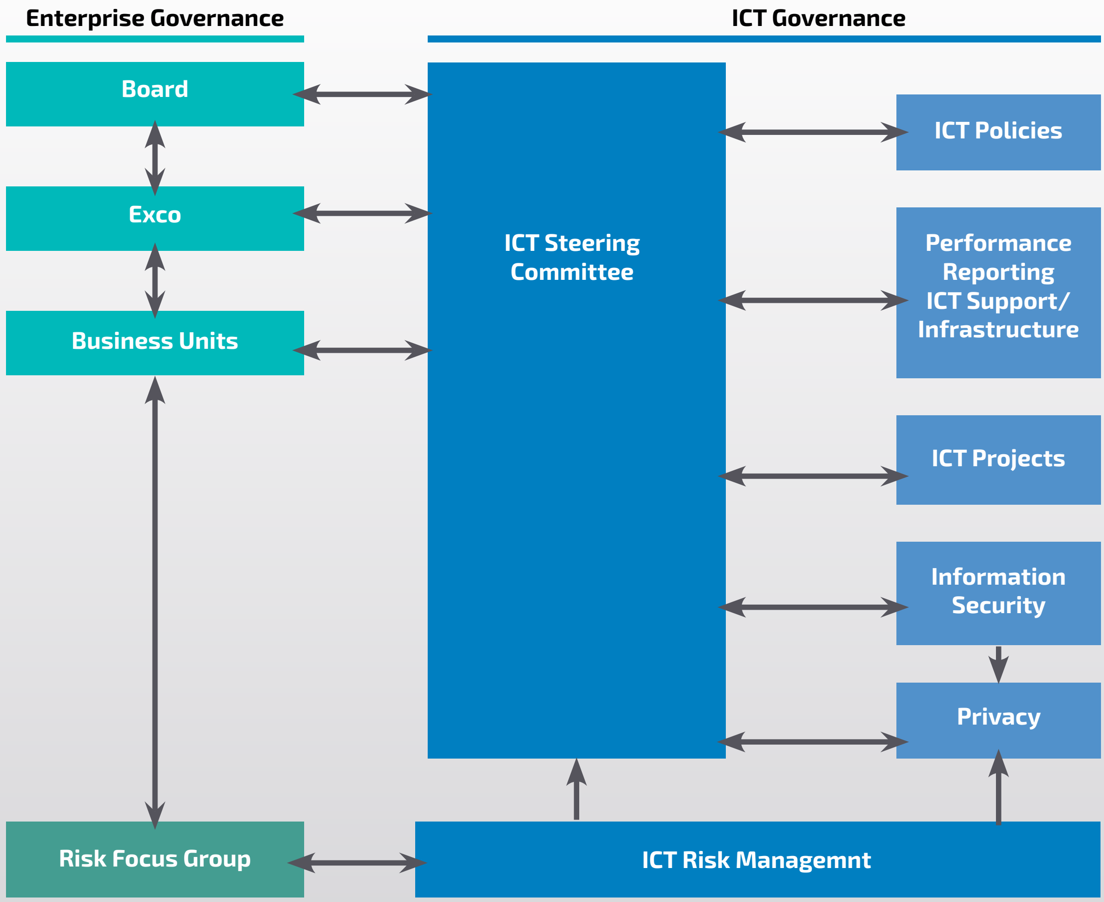

Figure 1 - ICT Governance Structures

The ICT Governance Steering Committee represents the interests of the Board in delivering sustainable and enabling services to the organisation. The committee is accountable for ethical and effective management of SANRAL's information technology resources with which it aims to achieve strategic outcomes and create value for stakeholders.

During 2018/19, the ICT department concluded the development of a five-year ICT strategy which was approved by the Board. The strategy aims to ensure that the ICT function enables SANRAL to achieve its strategic objectives as set out in Horizon 2030. ICT has the potential not simply to make the business of SANRAL more efficient by automating processes but also to ensure that it plays a strategic role, for instance, through the data gathering, sharing and analysis potential and capabilities it offers.

The ICT strategy sets out a process to prepare SANRAL for emerging technology that is relevant to the organisation. In 2019 SANRAL embarked on major technology upgrades/procurement, which included the following:

Description	Planning	Design	Sourcing	Implementation
Microsoft Cloud Services	Done	Done	Done	80% Complete
Enterprise Service Desk	Done	Done	2021/22	
Local Area Network (LAN)	Done	Done	Done	60% Complete
National DWDM (Dense Wavelength Division Multiplexing) wide area network (WAN) which will service the following business areas and key projects: Corporate WAN Enterprise systems • Toll operations • Overload control • Freeway management system	Done	Done	Done	10% Complete
SAP digital transformation	Done	Done	N/A	95% Complete
Enterprise information management upgrade, support and maintenance	Done	Done	Done	5% Complete
Enterprise-wide toll solution	Done	95%	2021/22	0%
Microsoft Outlook Online Migration	Done	Done	Done	95% Complete
Gauteng Communication Network	Done	Done	2021/2022	-
Managed Mobile Device Management (MDM) – Microsoft InTune Portal	Done	Done	N/A	95% Complete

ICT Risk Management is done in accordance with the enterprise risk management approach and methodology with information security and privacy risk given specific attention and handled through the outsourced Security Operations Centre (SOC) project. A few (but not limited) of the areas that are covered are as follows:

- Vulnerability Management - cyclical practice of identifying, classifying, prioritising, remediating and mitigating software vulnerabilities
- Email security, archiving and continuity
- Network security and management - monitors and controls incoming and outgoing network traffic based on predetermined security rules.

Compliance governance

Principle 13: The accounting authority should govern compliance with applicable laws and adopt non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Ensuring compliance is integral to every activity or operation of the organisation. A Compliance Policy has been adopted. It confirms SANRAL's commitment to comply not only with legislation but also with codes, standards and best practice.

The identification of legislation and regulation that impact on SANRAL's activities is one of the processes to ensure compliance. A key area of focus has been on ensuring compliance with procurement legislation and regulations, changes in which are closely monitored through SANRAL's Supply Chain Management (SCM) unit. The unit is required to give effect to such changes. Controls in this area continue to be strengthened. Strict adherence to SCM regulations is critical, as is the avoidance of any real or perceived conflict of interest.

The annual governance, risk and compliance roadshow to all employees informs staff of the importance of compliance in every function.

There have been no regulatory penalties, sanctions or fines for non-compliance or contravention of statutory obligations by the Board or senior management since SANRAL was established.

Remuneration governance

Principle 14: The accounting authority should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

SANRAL's remuneration philosophy and policy support its business strategy.

The Remuneration Policy guides the determination of the remuneration of employees. The Policy is updated annually and approved by the Board, on the recommendation of the SETC, which has the responsibility for overseeing employee remuneration. It is also tabled and approved at the shareholder meeting which serves as the Annual General Meeting, most recently on 30 October 2020.

The purpose of the SANRAL Remuneration Policy and implementation strategy is to attract, retain, motivate and reward high-performing employees who constructively contribute to the achievement of SANRAL's objectives.

SANRAL is committed to the principle of fair and responsible remuneration for the whole company. Actions in this regard include:

- Assessment of remuneration conditions among employees at the same level, in accordance with the principle of 'equal pay for work of equal value', to identify and address any unjustifiable remuneration disparities
- Initiatives to invest in its people, including through talent management, development opportunities for all employees, various training courses as per identified needs, and an employee value proposition aligned with corporate values and culture

On an annual basis, SANRAL engages the services of a specialist service provider to advise SANRAL on a range of reward issues, including, senior executive rewards and governance, tax and regulatory compliance, a 'total' reward strategy and analytics, competitive benchmarking, incentive design and linkage to performance management. The SETC was satisfied with the independence of the service provider.

Elements of the remuneration framework

SANRAL has two components of remuneration:

- Total Guaranteed Package (including benefits)
- Short-term incentives in the form of its STI scheme

The guaranteed package is the total annual guaranteed cost to the company of employing an individual and includes components such as cash salary, travel allowance and the company's contributions towards retirement funding and medical insurance.

Guaranteed packages are benchmarked against the 50th percentile of the market for comparable companies utilising independent salary surveys. SANRAL currently uses the PwC REM channel's national survey, engineering circle and state-owned data for the annual salary surveys. Information on packages offered in comparator groupings in the industry and the state-owned environment allows SANRAL to develop market-related remuneration scales for all employee grades. Salary adjustments also take into account salary grade and performance and must always be within the limits approved by the Board.

Total Guaranteed Package (TGP)
Our employee pay reflects their skills, role and function. SANRAL offers benefits that are best practice and comply with legislation. In terms of our total cost to company philosophy, any change in the price of a benefit or contribution level will not have a cost impact on the employer but will affect the employee's net remuneration. As a standard, we offer the benefits detailed below to all permanent employees, including our executive team.

Retirement funding
The SANRAL Provident Fund, a defined contribution scheme, is compulsory for all permanent employees. Contributions to the retirement fund are based on pensionable salary and employees can select their pensionable salary at either 72.5%, 80%, 90% or 100% of the TGP. They can also choose where they would like their money to be invested based on their individual risk profile. The normal retirement age is 65 for all employees.

Insured benefits
The insured benefits include group life assurance, spouse cover, and disability benefit. These contributions are calculated as a percentage of pensionable salary.

Medical aid
Employees can choose to participate in any nominated medical aid scheme. The schemes available at SANRAL were selected to address the needs of the diverse SANRAL workforce. As part of the medical aid benefit offering, we have a full-time Alexander Forbes consultant to assist with any medical aid related queries.

Variable pay - short-term incentives
Employees who exceed performance expectations are eligible for variable pay in the form of a short-term incentive (STI) scheme bonus in accordance with the approved STI scheme rules. The scheme is performance-based and is aimed at attracting, retaining and motivating employees and supporting implementation of SANRAL's strategy. Performance targets are agreed through a performance contract with each employee at the start of a financial year and vary in accordance with the grading of the individual and their ability to influence organisational performance.

The performance rating agreed by the line managers and employees at the conclusion of the annual review cycle, combined with performance ratings for each region, division and SANRAL's organisational performance score, form the basis of the short-term incentive calculation. Performance and the incentive calculations are audited prior to payment.

Employees who are under investigation or have pending disciplinary action are not eligible for a performance bonus. Only after the finalisation of the investigation and/or disciplinary action proceedings will the performance bonus pay-out be considered and a retrospective payment may be made. In the event of resignation before financial year-end or dismissal for just cause, all STI will be forfeited.

The setting of remuneration of the CEO is the responsibility of the Board. The CEO's remuneration adjustment must be approved by the Minister of Transport with the concurrence of the Minister of Finance. This is done on recommendation from the Board, based on its assessment of the CEO's performance.

All employees other than the CEO have permanent employment contracts. The notice period ranges from one to three months.

Board Remuneration

The Minister annually approves the remuneration for the Chairperson and the independent, non-executive members of the Board. Those members were remunerated at a daily rate for every day spent on SANRAL business, as per S13 (3)(a) of the SANRAL Act.

The remuneration of the Board and senior management is listed on page 127.

Assurance

Principle 15: The accounting authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The Board is responsible for ensuring an effective internal control environment to ensure the integrity of information and operations and the implementation of Board-approved policies. To do so, the Board has ensured that there is coordination of work amongst different assurance providers including line management, the risk management function and internal and external audit.

Internal auditor
The Internal Audit function followed the co-sourced model during FY 2020/2021. For the outsourced projects,

the Internal Audit function utilised the Board approved panel of service providers. The Internal Audit function completed 81% of audits which were planned for the year. Due to COVID-19, the unit experienced some delays in the procurement process which led to the need for an approval from the Board for the cancellation of audit projects which were planned to be outsourced. The CAE reports functionally to the chairperson of ARC and administratively to the CEO and has direct access to the Board. The Board, on the recommendation of ARC, approved the FY21/22 internal audit charter, methodology and the three-year rolling internal audit plan, which takes a risk-based approach. The Committee and Board acknowledge and support the roll-out of the combined assurance model.

The Internal Audit function has confirmed to the ARC that, for 2020/21, there was no material breakdown in the functioning of the systems, procedures and controls, which could lead to material losses, contingencies or uncertainties or require disclosure in the financial statements. Any control deficiencies identified by the internal and external auditors were brought to the attention of the ARC and management implemented corrective action. Where internal controls did not operate effectively throughout the year, corrective action has been taken.

External auditor

In terms of the SANRAL Act and the PFMA, the Auditor-General of South Africa (AGSA) is the appointed external auditor. The ARC has considered the quality of the external audit done by the AGSA and is satisfied with the processes and audit deliverables.

The AGSA is mandated by the Public Audit Act No 25 of 2004, as amended, with the latest amendment in 2018, to conduct the audits in accordance with the International Standards on Auditing. The AGSA is required to comply with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. These require that any threats to independence be identified and mitigations put in place. The Board is satisfied that the external auditor is independent of the organisation. The external auditor did not provide any non-audit services.

The AGSA rotates engagement managers whenever a familiarity threat to independence is identified. The rotation policy stipulates that an engagement manager should be rotated on a five-year basis and this is monitored by the risk and ethics unit within the AGSA. However, if conditions suggest a significant threat to independence, the rotation can be done earlier than five years.

The AGSA attends the Audit and Risk Committee meetings regularly and also the Shareholder Meeting which serves as SANRAL's Annual General Meeting annually.

Assurance

With regard to this Integrated Report, Management compiles and provides the first level of assurance for the veracity of the information. Project-specific information was vetted by project consultants and project managers as well as Management. The internal and the external audit (AGSA) teams have provided further assurance of the financial statements and performance reports. The Board is satisfied with the integrity of the information provided in the Integrated Report 2021. Please also refer to the Report of the Audit and Risk Committee on page 30.

1.5 Stakeholder relationships

Stakeholders

Principle 16: In the execution of its governance role and responsibilities, the accounting authority should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

SANRAL has been consistently and progressively adaptive and resolute in building on the momentum already created for its business around constructive relations with its broad stakeholders and communities despite the socio-economic challenges and limited human contact opportunities presented by the COVID-19 pandemic.

SANRAL has a key role to play in post-COVID South Africa as a catalyst to economic recovery not just in developing and keeping critical infrastructure working, but also in addressing the serious socio-economic challenges through job creation and the development of SMMEs. This is consistent with SANRAL's long-term imperative of creating mutually beneficial relationships between its projects and the provincial and local governments, traditional leadership and communities.

SANRAL has sustained engagements with these tiers of government, local and district municipalities, chambers of commerce, business forums and civil society organizations affected by SANRAL's projects which enable the seamless execution of these projects. This past year has also seen the organisation heighten its community engagement programme through social facilitation.

The Board has continued to be supportive and has played a very crucial leadership role in engaging with stakeholders on policy matters and in advancing the principles of good corporate governance as per the King IV Code and applicable legislation. The Board has also played a significant role in managing relations with political stakeholders. This has resulted in good political support and necessary interventions, where required, to mitigate rising challenges.

A noticeable improvement in relationships has been witnessed on the N2 Wild Coast (N2WC) project, where the key traditional leadership authority has unanimously pledged support for SANRAL to continue the implementation of the project and this has even seen some community organisations who were opposed to the project initially changing their stance towards more positive responses.

This financial year has focused on the implementation of the Transformation Policy as ratified by the Memoranda of Understanding between SANRAL and major industry players. As part of enabling the implementation of the Transformation Policy, a focus on facilitating engagements between designated groups and the MoU partners has seen closer relationships between SMMEs in designated groups and SANRAL's MoU partners in order to facilitate access to construction equipment, financing, training, information and mentoring.

SANRAL has suitably adapted to the disruptive nature of the COVID-19 pandemic on social facilitation and engagement by pursuing a hybrid format of engagements, incorporating digital facilities to enhance engagements where technology accessibility permits, given the limited physical meetings.

Infrastructure development is a key driver to inclusive economic recovery in South Africa and SANRAL has been named specifically as a strategic role player in the country's economic recovery. SANRAL will be integral to leading the transport infrastructure development agenda post-COVID, whilst leveraging the advancements already achieved with stakeholders and communities.

2. ANNUAL PERFORMANCE PLAN 2020/2021: CORPORATE PERFORMANCE INFORMATION

PRIORITY 2: ECONOMIC TRANSFORMATION AND JOB CREATION

Output indicator		Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
1.1	Smooth Travel Exposure (STE)	Quarterly	95.89%	≥ 95%	95.32%	+0.32%	Latest updated condition data combined with traffic data has been used. The performance exposure measures change year-on-year. The statistic captures the effect of maintenance actions on the network and their impact of improving the road users' experience. As such, there are many factors that can influence the results. Factors that improve performance are the impact of improved road conditions due to maintenance actions and the effectiveness of these actions. Deterioration of the infrastructure will lead to a decrease in the score. The rate of deterioration can be affected by temperature, rainfall and other environmental effects, amount of traffic on the road, the distribution of the traffic between heavy vehicles and passenger vehicles, and particularly the number of overloaded vehicles. Due to the nature of the infrastructure deterioration, such deterioration will not be immediately apparent but will accelerate over time if maintenance is not performed. Therefore, the work conducted in previous years will continue to have a positive effect in following years. Finally, the statistic will also be affected by continuing changes in traffic volumes and the distribution of this traffic across the network.
1.2	Low Rut Exposure (LRE)	Quarterly	98.78%	≥ 95%	98.63%	+3.63%	
1.3	High Texture Exposure (HTE)	Quarterly	98.78%	≥ 95%	98.57%	+3.57%	
1.4	Bridge Condition Exposure (BCE)	Quarterly	93.49%	≥ 90%	93.43%	+3.43%	

Output indicator		Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
1.5	Routine maintenance km	Quarterly	22 207km	22253km	22253km	0%	Performance equivalent to set target. Latest network proclamations and survey data has been used.
1.6	Network resurfaced km	Annual	191.73km	150km	125.378km	-16.41%	Underperformance due to delays in award of new reseal contracts, along with the 3-month ramp-up period after award resulted in very limited actual expenditure from projects procured in terms of latest SANRAL procurement requirements. Actuals on site mostly based on old projects in final stages of completion. Remedial plans include implementation of the Operating Model Review (OMR) to address human capacity and operational challenges. Recalibrate the procurement plan and improve internal operations. Development and incorporation of various Standard Operating Procedures to enable service delivery under COVID-19 restrictions.
1.7	Road strengthened, improved and new (CAPEX) km	Annual	151.63km	125km	77.516km	-37.99%	Underperformance due to delays in award of new CAPEX contracts, along with the 3-month ramp-up period after award resulted in very limited actual expenditure from projects procured in terms of latest SANRAL procurement requirements. Actuals on site mostly based on old projects in final stages of completion. Remedial plans include implementation of the Operating Model Review (OMR) to address human capacity and operational challenges. Recalibrate the procurement plan and improve internal operations. Development and incorporation of various Standard Operating Procedures to enable service delivery under COVID-19 restrictions.

	Output indicator	Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
1.8	Percentage of RRM (Routine Road Maintenance) expenditure performed by Black-owned SMMEs and contractors (Based on Black ownership of main contractor)	Quarterly	82.1%	>75%	86.1%	+11.1%	Overperformance due to new RRM projects procured in terms of SANRAL's latest procurement requirements commencing onsite with actual expenditure.
1.9	Percentage of Non RRM (Routine Road Maintenance) expenditure performed by Black-owned SMMEs and contractors (Based on Black ownership of main contractor)	Quarterly	50.8%	>60%	46.5%	-13.5%	Underperformance due to delays in award of new non-RRM contracts, along with the 3-month ramp-up period after award resulted in very limited actual expenditure from projects procured in terms of latest SANRAL procurement requirements. Actuals on site mostly based on old projects in final stages of completion. Remedial plans include implementation of the Operating Model Review (OMR) to address human capacity and operational challenges. Recalibrate the procurement plan and improve internal operations. Development and incorporation of various Standard Operating Procedures to enable service delivery under COVID-19 restrictions.
1.10	Number of SMMEs working for SANRAL	Quarterly	1 933	1200	1265 >51% Black = 996 <51% Non-Black = 269	+5.42%	Marginal Overperformance due to impact of the remedial measures notwithstanding challenges that include reduced rollout of new construction projects, adverse impact of the COVID-19 lockdown on operations. Remedial measures included development and incorporation of various Standard Operating Procedures to enable service delivery under COVID-19 restrictions.
1.11	Community development infrastructure projects	Annual	6 projects in construction	12 projects in construction	8 projects in construction of which 5 were completed.	-33.33%	The development of the proforma documents for CD projects is dependent on the proforma documents for RRM and conventional projects which was approved in June 2020. Subsequently the CD proformas for consultants and construction were released in August and October 2020 respectively. From November 2020 to March 2021 numerous CD projects were let for consultants (design) and it is anticipated that these projects will start to be let for construction from the 3rd and 4th quarters of 2021/2022. It is thus anticipated that CD projects will be on target as from 2022/2023.

Note: KPI 1.1 – 1.4:	SANRAL measures up to 90% of the network due to maintenance activities ie ring roads/half width construction/Stop Go trafficked lanes cannot be measured, as a result sections under maintenance cannot be surveyed. Based on SANRAL's current maintenance activities about 10% of the network is not measurable, which is the reason for the 90% upper target.
Note: KPI 1.5:	The length of the SANRAL road network is subject to continuous amendment (increase or decrease) during a financial year due to the publication of various declaration gazettes by the Minister of Transport. As these amendments are also approved by the Minister of Transport, their impact on network length (increase or decrease) will be reflected in the quarterly targets and actuals.
Note: KPI 1.5, 1.6 and 1.7:	As in SANRAL roadworks classification document and under construction
Note: KPI 1.8 and 1.9:	As in SANRAL roadworks classification
Note KPI 1.8, 1.9 and 1.10:	Beneficiary data is based on unskilled and semi-skilled. There may be cases where skilled is included.
Note: KPI 1.10:	The number includes SMMEs counted more than once when providing services on different project types (routine maintenance, special maintenance, strengthening, toll and non-toll projects). The total number of unique SMMEs is 1140.
Note KPI 1.11:	Includes all CD projects in construction and completed during the financial year. 8 projects in construction of which 5 were completed during the year.
Note:	From quarter 2 targets for KPI 1.6; 1.7 and 1.10 were revised due to impacts of COVID-19. The revision window presented an opportunity to update KPI 1.5.

Category	Number (Instances)
>51% Black EME	789
>51% Black QSE	207
<51% Non-Black EME	119
<51% Non-Black QSE	25
Non-compliant	125
Total	**1265**

* Exempted micro-enterprises (EME), which are entities with an annual turnover of R10m or less.
* Qualifying small enterprises (QSE) with an annual turnover of between R10m and R50m

PRIORITY 2: ECONOMIC TRANSFORMATION AND JOB CREATION

Output indicator		Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
2.1	Jobs created on project (full-time equivalent)	Quarterly	8 575	6000	6063 Female = 1652 Male = 4411 Youth = 3024	+1.05%	Marginal Overperformance due to impact of the remedial measures notwithstanding challenges that include reduced rollout of new construction projects, adverse impact of the COVID-19 lockdown on operations. Remedial measures included development and incorporation of various Standard Operating Procedures to enable service delivery under COVID-19 restrictions.

Note KPI 2.1:	Refers to full-time equivalents and calculation based on actual hours worked. Beneficiary data is based on unskilled and semi-skilled. There may be cases where skilled is included.
Note:	From quarter 2 target for KPI 2.1 was revised due to impacts of COVID-19.

PRIORITY 3: EDUCATION, SKILLS AND HEALTH

	Output indicator	Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
3.1	Number of internships (Practical experience for under-graduate studies)	Quarterly	157	80	125 ER – 20 NR – 35 SR – 45 WR – 25	+56.25%	Overperformance due to easing of lockdown restrictions and more sites were able to accommodate additional interns.
3.2	Number of external bursaries (tertiary)	Annual	138	100	100	0%	Performance as per target.
3.3	Number of scholarships	Annual	230	220	220	0%	Performance as per target.

Note: From quarter 2 targets for KPI 3.1 and 3.2 were revised due to impact of COVID-19.

PRIORITY 6: SOCIAL COHESION, AND SAFER COMMUNITIES

	Output indicator	Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
4.1	Identify, investigate and propose remedial measures for 12 pedestrian hazardous locations	Semi-annual	14 pedestrian hazardous locations have been identified, investigated and had remedial measures proposed.	Identify, investigate and propose remedial measures at twelve pedestrian hazardous locations per year	Identification 100%: 22 locations Investigation 100%: 22 locations Propose remedial measures: 100%: 21 locations	+75%	Overperformance due to identification of additional HAZLOC's due to improvement and streamlining of identification processes. Propose remedial measures not completed for all locations due to COVID-19 associated delays.
4.2	Conduct road safety audits on at least 12 projects.	Semi-annual	9 road safety audits completed	12 road safety audits completed	23 road safety audits completed	+91.67%	Overperformance as a result of a substantial number of consult-ing engineering services projects progressing further than expected in the financial year. This allowed additional RSA's to be conducted this financial year but may result in a significant drop in RSA's in the next financial year.
4.3	Road safety education and awareness programmes at selected educational sites in a 5km radius of the national network and/or linked to SANRAL construction projects	Semi-annual	75 sites	30 sites	74 sites completed	+146.67%	Overperformance achieved despite COVID-19 and challenges with schools the team focussed on the Parent workshops in the identi-fied areas. During workshops all COVID-19 protocols were observed. "Teacher workshops" commenced in March and the team were able to access schools using a different methodology for these workshops due to COVID-19. The methodology includes one on one training using different platforms and ICT tools.

PRIORITY 1: CAPABLE, ETHICAL AND DEVELOPMENTAL STATE

	Output indicator	Reporting period	Actual 2019/20 baseline	Annual target 2020/21	Quarter 4: 31 March 2021		
					Achieved	Variance	Comments/reasons for variance
5.1	Number of positive messages in national/ regional media (print, broadcast or online) per month	Quarterly	Profiled approximately 23 positive messages per month in national, regional and community media through various mediums	Profile at least twelve positive messages in national/ regional media (print, broadcast or online) per month	359 positive stories published this year with approximately 29 per month.	+141.67%	Overperformance due to dedicated PR agency and Social and digital media Manager
5.2	Number of stakeholder engagement sessions/round tables	Quarterly	28 round table sessions were hosted in the year.	Hold six round table discussions with stakeholders	212 stakeholder round table sessions were hosted	+3433.33%	This overachievement was due to sudden appointment of the Agency, and additional budget by EXCO and Board which resulted in a dedicated Stakeholder Team to carry out the stakeholder round tables, which were done both virtually and physical.

Note: From quarter 2 targets for KPI 5.1 and 5.2 were revised due to impacts of COVID-19.

3. REPORT OF THE AUDIT AND RISK COMMITTEE

In compliance with Treasury Regulation 27(1) of the Public Finance Management Act of 1999 (PFMA), as amended, the Audit and Risk Committee (ARC) reports as follows for the financial year ended 31 March 2021.

1. Audit and Risk Committee members and meetings

The ARC consisted of three independent non-executive directors. During the reporting year, six meetings were held, one of which was a special meeting due to COVID-19 related timelines as directed by National Treasury. The Chief Executive Officer, Chief Financial Officer, Corporate Services Executive, Chief Audit Executive, Chief Risk Officer, ICT Manager, the Company Secretary and the External Auditors attended meetings by invitation.

The Committee members were as follows:

Mr Robert Haswell:	Chairperson (Independent non-executive Board member)
Ms Lungile Madlala:	Member (Independent non-executive Board member
Mr Thamsanqa Matosa:	Member (Independent non-executive Board member)

The Committee was assisted by Mr Thamsanqa Zikode as an independent adviser.

2. Responsibilities of the ARC

The ARC is constituted in terms of the PFMA, No. 1 of 1999, as amended and the Companies Act, No. 71 of 2008, as amended, as a statutory Board Committee. The Committee has also been set up as per King IV principles. The ARC has adopted the Audit and Risk Committee Charter, which has been confirmed by the Board. The Charter sets out the mandate of the Committee.

During the reporting year the Committee conducted its affairs with integrity, impartiality and objectivity. It complied with its roles and responsibilities as stated in the Act and its Charter.

In executing its duties during the reporting period, the ARC:

- Reviewed and considered the Integrated Report and Financial Statements.
- Monitored and supervised the effective operation of the internal control and internal audit functions.
- Oversaw the external audit process and the review of the report of the Auditor-General.
- Ensured that appropriate reporting procedures exist and these procedures are operating effectively.
- Ensured that an effective, efficient and transparent system of risk management is maintained.
- In reviewing the reports from internal and external audit, the internal risk function and the legal unit, it fulfilled an oversight role to ensure compliance with relevant laws and regulations.
- Assisted the Board in carrying out its IT governance responsibilities.
- Assisted the Board with the following:
  - Reviewing the strategic plan and annual performance plan prior to Board approval
  - Reviewing the Delegation of Authority Framework prior to Board approval
  - Reviewing the Internal Audit Charter prior to Board approval
  - Reviewing the Internal Audit Risk Based 3 Year Rolling audit plan prior to Board approval
  - Reviewing the Internal Audit Methodology
  - Reviewing the annual budget prior to Board approval
  - Reviewing the summary of public liability claims and other legal actions prior to Board approval
  - Considering the concerns raised with regard to SANRAL's going concern status as a result of the low collection of tolls on the Gauteng Freeway Improvement Project (GFIP) and proposing actions to the Board to mitigate this risk
  - Performing such other oversight functions as may be determined by the Board

3. Adequacy of internal controls

SANRAL's system of internal control is designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed.

The ARC is pleased to report that nothing came to its attention suggesting that any material breakdown had occurred in the functioning of the systems, procedures and controls that could lead to material losses, contingencies or uncertainties that would require disclosure in the financial statements.

Any control deficiencies identified by the internal and external auditors were brought to the attention of the Committee and Management implemented corrective action. Where internal controls did not operate effectively throughout the year, compensating controls or corrective action or both were used to eliminate or reduce risks.

The Committee has further reviewed the written assessment from Internal Audit on the design, implementation and effectiveness of the internal financial controls. Based on the results of this review, the Committee is of the opinion that the internal financial controls form a sound basis for the preparation of reliable financial statements.

The Committee is satisfied that SANRAL took the necessary steps to deal with the COVID-19 lockdown including the establishment of a COVID-19 Task Force, the provision for a reprioritized COVID-19 budget and adequate and pro-active risk management including the maintenance of appropriate contagion prevention measures at all its offices.

4. Internal Audit

The in-house Internal Audit team is functioning as per the approved structure, by the Committee. The Chief Audit Executive has reported functionally to the ARC and administratively to the CEO since appointment. In the last month of the financial year, the in-house team completed all the deliverables which were set in the FY21 Internal audit plan except for the cancelled audits.

The ARC reviewed and amended the Internal Audit Charter, which stipulates the terms of reference for the internal audit function. The internal audit function's annual operational and three-year-plans were considered, reviewed and approved by the Board. All internal audit work performed, internal audit reports and progress reports were reviewed by the ARC on a quarterly basis.

The internal audit function also participated as observers in SANRAL's Risk Cluster which has the role of identifying and assessing risks.

5. Expertise and effectiveness of the Chief Financial Officer and the Finance function

The ARC examines and reviews the competence of the CFO and the finance function annually. It is satisfied that the CFO and the finance function have the appropriate expertise, resources and experience.

Accordingly, the Committee considered the CFO and the finance function to be sufficiently effective to:

- Ensure and maintain effective, efficient and transparent systems of financial and risk management and internal control.
- Manage available working capital efficiently and economically.
- Manage and safeguard the assets of the agency and manage its revenue, expenditure, and liabilities.
- Comply with any tax, levy, duty, pension, and audit commitments as required by legislation.

6. Evaluation of annual financial statements

The Committee has:

- Reviewed and discussed with the Auditor-General and the Board of Directors the audited financial statements to be included in the report.
- Reviewed the Auditor-General's management and audit reports.
- Reviewed changes in accounting policies and practices.
- Reviewed significant adjustments resulting from the audit.
- Reviewed the Integrated Report and recommended it to the Board for approval.

The ARC concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General.

7. Risk management

The ARC has oversight of enterprise-wide risk management within SANRAL with added emphasis on fraud and information technology risks. The Committee also fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud and information technology risks as they relate to financial reporting.

8. Going concern

The Committee assessed the going concern premise of SANRAL, for the foreseeable future, and confirms this status to the Board.

Rob Haswell

On behalf of the Audit and Risk Committee as at 31 March 2021

Date:

PROHIBITED CONDUCT STATEMENT

The Basic Conditions of Employment Act 1997 sets strict conditions for employers and enforces minimum statutory terms under which they may contract with employees. Section 33A of the Act aims to prevent employers from requiring employees to make payments to secure employment. SANRAL is committed to creating an environment that supports compliance with this legislation, including the following requirements under Section 33A:

33A. Prohibited conduct by employer

1. An employer must not-
   a. require or accept any payment by or on behalf of an employee or potential employee in respect of the employment of, or the allocation of work to, any employee; or
   b. require an employee or potential employee to purchase any goods, products or services from the employer or from any business or person nominated by the employer.

2. Subsection (1)(b) does not preclude a provision in a contract of employment or collective agreement in terms of which an employee is required to participate in a scheme involving the purchase of specific goods, products or services, if the purchase is not prohibited by any other statute and-
   a. the employee receives a financial benefit from participating in the scheme; or
   b. the price of any goods, products or services provided through the scheme is fair and reasonable.

SECTION 4
ANNUAL FINANCIAL STATEMENTS

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REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SOUTH AFRICAN NATIONAL ROADS AGENCY (SOC) LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of the South African National Roads Agency (SOC) Limited (Sanral) set out on pages 56 to 165, which comprise the statement of financial position as at 31 March 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Sanral as at 31 March 2021 , and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of Sanral in accordance with the *International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

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

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Revaluation of road network and road structures	
Sanral applies the depreciated replacement method in the revaluation of the road network and road structures disclosed under property, plant and equipment. The carrying value of the road network is R312,7 billion and that of road structures is R96,3 billion. The fair value adjustment recorded in other comprehensive income for the road network is (R2, 1 billion) and that of road structures is R9,7 billion. This results in a combined amount of R7,6 billion. Inputs applied in the revaluation of the road network and road structures include the following: • Age of the road network and road structure • Overall condition index • Material unit rates	I assessed the design and operating effectiveness of internal controls relating to the revaluation of the road network and road structures. I performed the following audit procedures to confirm the validity, accuracy and completeness of the data used to perform the valuation: • Comparing input data to the Integrated Transportation Information System ITIS (road network survey) for completeness. • Verifying manual uploading of data from the ITIS to the financial records for accuracy and completeness. • Verifying control totals of values in the financial records through reconciliation and comparison to values on the ITIS.

<table>
<tr><th>KEY AUDIT MATTER</th><th>HOW THE MATTER WAS ADDRESSED IN THE AUDIT</th></tr>
<tr><td colspan="2">Revaluation of road network and road structures</td></tr>
<tr><td>The disclosure relating to the revaluation of the road network and road structures is set out in the following notes:
• Note 1.2 - significant judgements and sources of estimation uncertainty
• Note 4 - property, plant and equipment under concession
• Note 5 - property, plant and equipment
• Note 15 - revaluation reserve
• Note 40 - fair value information

Due to the significance of the value of the road network and road structures to the financial statements as a whole, combined with the assumptions associated with determining the fair value, I considered this to be a key audit matter.</td><td>I assessed the appropriateness of the subsequent measurement basis against the requirements of International Accounting Standard 16 (IAS 16), Property, plant and equipment and International Financial Reporting Standard 13 (IFRS 13), Fair value measurement.

I engaged an auditor's expert to assess the appropriateness and reasonableness of management's assumptions to determine the value of the road network and road structures.

Before I placed reliance on the work of the auditor's expert, I satisfied myself with the expert's independence, objectivity and competency in line with the requirements of ISA 620, Using the work of an auditor's expert.

The procedures performed by the expert included:
• Evaluating the appropriateness and reasonableness of the revaluation method, assumptions and parameters applied.
• Assessing the appropriateness of the valuation method against international standards on valuation.
• Assessing the reasonableness of the material unit rates to market data and entity-specific information to confirm the appropriateness of these judgements.
• Assessing the reasonability of the adjustment rate applied in computing the asset replacement value unit rate.

I reviewed the work performed by the auditor's expert to confirm that the conclusion reached was in line with the work performed and my understanding of the auditee.

After all the inputs were confirmed by the auditor's expert, I re-computed the revaluation calculation.

I further considered whether the disclosures related to the road network and road structures in the annual financial statements are appropriate and in line with IFRS.

Based on the procedures performed, I am satisfied that the revaluation of the road network and road structures is appropriate, reasonable, fairly valued and appropriately disclosed in the annual financial statements.</td></tr>
</table>

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Expected credit losses (ECL) on toll debtors	
Sanral measures the ECL allowance for trade and other receivables by applying the simplified approach prescribed by IFRS 9: Financial instruments. The value for ECL on toll debtors was R9,6 billion on 31 March 2021. The disclosure relating to ECL is set out in the following notes: • Note 1.2 - significant judgements and sources of estimation uncertainty • Note 11 - trade and other receivables • Note 39 - financial instruments and risk management The assessment and calculation of ECL require management to make significant estimations and use significant judgements. Due to the subjectivity of the estimations and judgements, I considered the calculation of ECL for toll debtors to be a key audit matter.	I assessed the design and operating effectiveness of internal controls relating to ECL on debtors. I performed the following substantive audit procedures to confirm the appropriateness and reasonableness of the ECL on toll debtors: • Assessing the design and testing the operating effectiveness of controls related to toll debtors. • Evaluating the appropriateness and reasonableness of key assumptions and judgements such as the default rate by comparing these to historical data. • Evaluating the accounting policy and satisfying myself that it was consistent with the requirements of the accounting standard. • Considering the appropriateness of forward- looking (macroeconomic) factors used to determine ECL, including the impact of the COVID-19 pandemic. • Testing the accuracy and completeness of the underlying data used in the model and the arithmetic accuracy of the computation of ECL. • Applying computer assisted audit techniques (CAATs) to confirm the completeness of transactions from a gantry pass to when a transaction is recognised in the financial records of Sanral. • Considering the adequacy of the disclosure of the key sources of estimation of uncertainty in the accounting policy and notes to the annual financial statements. I engaged an auditor's expert to assess the appropriateness and reasonableness of the ECL on toll debtors. Before I placed reliance on the work of the auditor's expert, I satisfied myself with the expert's independence, objectivity and competency in line with the requirements of ISA 620, *Using the work of an auditor's expert.* Based on the procedures performed, I am satisfied that EGL on e-toll debtors are reasonable, in line with my expectation and appropriately disclosed.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Gauteng Freeway Improvement Project (GFIP) / e-toll revenue	
Sanral adopted IFRS 15, *Revenue from contracts with customers* with effect from 1 April 2018. IFRS 15 introduced a more specific requirement for the probability assessment, which now requires Sanral to consider both the ability and intention of customers to pay the consideration due. Included in the toll revenue amount, is an amount of R453,2 million that relates to GFIP / e-toll revenue. This relates to revenue which is disclosed in note 25. The probability assessment on GFIP / e-toll revenue is a matter that requires significant judgement. Furthermore, there is a high degree of complexity involved in the application of IFRS 15 to determine whether a contract exists with a road user before revenue is recognised. The disclosure relating to e-toll revenue is set out in the following notes: • Note 1.2 - significant judgements and sources of estimation uncertainty • Note 25 - revenue Based on the above, I considered the accounting of revenue from GFIP / e-toll in terms of IFRS 15 to be a key audit matter.	I assessed the design and operating effectiveness of internal controls relating to to GFIP / e-toll revenue. I performed the following substantive audit procedures to confirm the accounting of the GFIP / e-toll revenue: • Reviewing Sanral's accounting policy to confirm whether the method for recognition of revenue is relevant and consistent with IFRS 15. • Evaluating management's assessment of the probability of collecting e-toll revenue, taking into account historic cash flows and the account status of road users to confirm the reasonability of management's assumption. • Testing the reasonableness of management's assumptions of the probability to collect e-toll revenue. • Evaluating management's disclosure for revenue to confirm that it is in accordance with IFRS 15. • Reviewing the disclosure of significant judgements and sources of estimation of uncertainty in line with the requirements of the accounting standard. • Applying CAATs to confirm the accuracy of the categories and account status of road users applied in management's probability assessment. • Applying CAATs to confirm the completeness of transactions from a gantry pass to when a transaction is recognised in the financial records of Sanral. • Re-computing the amount of revenue recognised. Based on the results of the work performed, I am satisfied that e-toll revenue is recognised and accounted for in line with the requirements of IFRS 15 and appropriately disclosed in the annual financial statements.

Material uncertainty relating to going concern / financial sustainability

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

8. As disclosed in note 44 to the financial statements, Sanral's accumulated loss was R14 468 million at 31 March 2021 and Sanral's funding strategy for the next 12 months relating to toll operations is dependent on positive developments to resolve the e-toll impasse by Cabinet. These events or conditions, along with other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on Sanral's ability to continue as a going concern.

Emphasis of matters

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

Material impairments - trade and other receivables

10. As disclosed in note 11 to the financial statements, material impairments of R9,6 billion were recognised as a result of expected credit losses.

Irregular expenditure

11. As disclosed in note 43 to the financial statements, irregular expenditure of R175, 3 million was incurred in the current year, due to non-compliance with procurement regulations.

Responsibilities of the accounting authority for the financial statements

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

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

Auditor-general's responsibilities for the audit of financial statements

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

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

17. My procedures address the usefulness and reliability of the reported performance information, which must be based on Sanral's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by Sanral enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programme presented in Sanral's annual performance report for the year ended 31 March 2021:

Programmes	Pages In the annual performance report
Programme 1: road asset infrastructure management	Pages 24-27

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

20. The material findings on the usefulness and reliability of the performance information of the selected programme are as follows:

Programme 1: road asset infrastructure management

Indicator 1.8: Percentage of RRM (routine road maintenance) expenditure performed by Black owned SMMEs and contractors (based on Black ownership of main contractor)

21. An achievement of 86, 1% was reported against a target of >75% in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement.

Indicator 1.10: Number of SMMEs working for Sanral

22. I was unable to obtain sufficient appropriate audit evidence for the achievement of 1 265 SMMEs reported against a target of 1 200 SMMEs in the annual performance report, due to the underlying records not agreeing to the actual achievement. I was unable to confirm the reported achievement by alternative means.

Overall presentation

23. The performance information included in the annual report was not comparable in the context of the overall performance measurement and reporting framework applicable to Sanral, as the performance report did not include programmes but rather apex priorities, which were not consistent with the annual performance plan.

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. Refer to the annual performance report on pages 24 to 29 for information on the achievement of planned targets for the year and management's explanations provided for the under/over- achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21 to 23 of this report.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

26. In accordance with the PM and the general notice issued in terms thereof, I have a responsibility to report material findings on Sanral's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27 The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

28. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements in the statement of cash flows and various disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

29. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R175,3 million, as disclosed in note 43 to the financial statements, as required by section 51(1)(b)(ii) of the PFMA. Most of the irregular expenditure was caused by expenditure not approved by a duly delegated authority.

Procurement and contract management

30. Some contracts were extended or modified without the approval of a properly delegated official, as required by section 56 of the PFMA and paragraphs 9.1 and 9.2 of National Treasury Instruction Note 3 of 2016/17. Similar non-compliance was also reported in the prior year.

Consequence management

31. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure, as required by section 51 (1)(e)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.

OTHER INFORMATION

32. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.

33. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

34. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the

audit, or otherwise appears to be materially misstated.

35. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

37 Senior management did not address previously reported deficiencies relating to oversight of the financial reporting process, including detailed reviews of the financial reports by delegated officials, and related internal controls. Although management compiled an action plan to address audit findings, the plan was ineffective jn timeously addressing the reported control deficiencies due to a lack of adequate monitoring by management and governance structures.

38. There was a slow response by senior management to address previously reported deficiencies relating to compliance and related internal controls. Sanral's internal processes and systems did not prevent non-compliance with supply chain management legislation from occurring. Furthermore, there was a lack of consequence management relating to transgressions in respect of fruitless and wasteful expenditure.

39. The underlying systems and controls were inadequate to provide reliable evidence to support the reporting on predetermined objectives for the programme selected for auditing. Sanral did not have a fully capacitated performance management unit to monitor and validate actual achievements against source documents.

MATERIAL IRREGULARITIES

40. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities in progress

41. I identified material irregularities during the audit and notified the accounting authority of these, as required by material irregularity regulation 3(2). By the date of this auditor's report, I had not yet completed the process of evaluating the responses from the accounting authority.

OTHER REPORTS

42 I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in Sanral's financial statements, reported performance information, compliance with applicable legislation and other related matters.

These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

43. The Directorate for Priority Crime Investigation is currently investigating offences perpetrated by various construction companies against Sanral. This investigation has been ongoing since 2013.

Auditor-General

Pretoria

18 August 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE - AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected programmes and on Sanral's compliance with respect to the selected subject matters.

Financial statements

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

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.
5. From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

DIRECTORS' REPORT

31 March 2021

INTRODUCTION

The directors present their annual report as part of the audited annual financial statements of SANRAL for the year ended 31 March 2021.

SANRAL is incorporated as a state-owned company in South Africa in terms of the Companies Act (No. 71 of 2008) and is listed as a national public entity in schedule 3A of the Public Finance Management Act (No. 1 of 1999) (PFMA), as amended. The Board of Directors acts as the accounting authority in terms of the PFMA, section 49(2) (a).

Principal activities

The principal activities of SANRAL are the financing, management, control, planning, development, maintenance and rehabilitation of South Africa's proclaimed national road network, as prescribed by the South African National Roads Agency Limited and National Roads Act (No. 7 of 1998).

The declared national road network on 31 March 2021 was 22 253km. Non-toll roads comprise 87 percent of the total and toll roads constitute 13 percent. The non-toll roads are fully funded from the fiscus through an annual grant.

Although national roads account for 3.6 percent of the proclaimed road network in South Africa, they carry about 34.9 percent of all vehicle kilometres travelled and more than 70 percent of long-distance road freight.

During 2020/21, R2 945 million (2020: R2 713 million) was spent directly on toll roads. This comprised R699 million for capital projects and R2 246 million for maintenance.

During the same period, R4 709m (2020: R6 230 million) was spent directly on non-toll roads, with capital works absorbing R2 117 million and maintenance R2 973 million.

SANRAL's long-term strategy also known as Horizon 2030 entered its third year of implementation. The year 2020/21 marked the first year of implementation of the new 5 Year Strategic Plan and by extension the Annual Performance Plan developed as per the Department of Planning, Monitoring and Evaluation (DPME) Revised Framework for Strategic Plans and Annual Performance Plans. The new Strategic Plan is now more aligned to Horizon 2030 as well as Government's APEX priorities, the Medium-Term Strategic Framework, and the National Development Plan. The development of the Annual Performance Plan also takes into account the strategic thrusts and priority areas of the Minister of Transport.

The adverse impact of COVID-19 was particularly pronounced at the start of the hard lockdown and resulted in suspension of works for Q1. In light of the lockdown DPME afforded Schedule 3A and 3B entities an opportunity to revise and re-table their 5 Year SPs and 2020/21 Annual Performance Plans. Noting that the COVID-19 pandemic has led to reduced budgets, lockdowns preventing normal operations for some and responses to the various impacts. For SANRAL the revisions were in the form of changes to the affected Annual Performance Plan targets and not the indicators. Certain indicator targets warranted reduction due to the various restrictions which could not be overcome. Revisions to the annual, semi-annual and quarterly targets where applicable were applied from Q2. There were no revisions to the outcome targets outlined in the Strategic Plan (SP) which means some clawback in terms of performance over the medium term will be needed to deliver on the 5 year target specified.

SANRAL also actively participated in the activities of the newly-established Infrastructure and Investment Office in the Presidency (Infrastructure South Africa). This active participation culminated in 13 of SANRAL's projects being presented at the Sustainable Infrastructure Development Symposium (SIDSSA) hosted by the President in June 2020. This was followed by the projects being gazetted as Strategic Integrated Projects (SIPs) under SIP21 in July 2020, enabling fast tracking of their implementation.

The draft 2030 Roads Plan was finalised and approved for stakeholder engagement. The implementation of the flagship projects, included in the Presidential Stimulus priorities continued with SANRAL awarding 8 construction projects in 2020/21 with a further 20 construction projects planned for 2021/22 that will result in a total infrastructure investment of more than R30 billion. These will create much needed job opportunities totalling 34 500 over the Medium Term Expenditure Framework (MTEF) period. These projects are all located on key economic corridors and the implementation of all these projects over five to ten year period will result in substantial road user cost savings due to reduction in congestion and accidents associated with improvements.

Work on the R573 Moloto Road continued. This project is intended to improve road safety and is one of the Strategic Infrastructure Project (SIP1) projects prioritised for acceleration. The Limpopo and Mpumalanga sections of R573 Moloto Road were transferred to SANRAL in 2015/16 and Phase 1 of the multi-year project for the Mpumalanga portion was completed in October 2018, including the upgrading of intersections, with the incorporation of bus bays and pedestrian crossings. Progress on Phase I for the Limpopo portion, which included upgrading of the existing single carriageway, surfaced shoulders, upgrading of intersections and installation of drainage structures, was negatively impacted by the main contractor going into business rescue and then COVID-19 related restrictions, resulting in work only restarting in September 2020. Two construction projects related to phase II was also awarded in 2020/21 with further eight phase II construction projects planned for 2021/22. The Gauteng portion was also transferred to SANRAL in June 2020, paving the way for SANRAL to accelerate the finalisation of outstanding designs and regulatory approvals.

The Mtentu Bridge, one of the mega bridges on the N2 Wild Coast, the contruction of which was abandoned by the appointed contractor in January 2019, citing community violence, saw the Gauteng High Court judgement in favour of SANRAL to call upon guarentees being upheld by the Supreme Court of appeal. The re-tender was issued in August 2020 and closed in March 2021, with the bid adjudication in final stages.

Work on Msikaba Bridge, one of the mega bridges on the N2 Wild Coast, proceeded on site with the excavations for the foundations for the cable piers/towers and the anchor blocks being completed and concrete pouring commencing. Progress onsite was negatively impacted by COVID-19 related restrictions as well as rejection of work not completed according to quality standards, requiring rework. The tenders for two road construction projects, to the value of R5 billion, closed in March 2021 with the bid adjudication in final stages. A further five road construction projects are planned for 2021/22.

SANRAL continues to provide information to its Shareholders on the status of the collections of outstanding toll payments from the Gauteng Freeway Improvement Project (GFIP). The task team, established by the President, concluded its work and has submitted its recommendations to the Presidency. SANRAL awaits the final outcome of this process to be announced. The uncertainty has resulted in SANRAL not being able to continue with funding of other capital projects on the existing toll network, which is required to alleviate bottlenecks on major arteries, to further grow the economy. The sovereign downgrades has also resulted in some of the International Developmental Finance Institutions having to postpone possible loans to the entity. Decisions to increase SANRAL's borrowing limit and guarantees, have also been postponed pending the outcome of the decision.

To deliver on Horizon 2030, SANRAL required a review and redesign of its existing operating model. This was to ensure that the new strategy could sensibly be achieved with the right capabilities (people, processes and technology) in the most effective and efficient manner possible. This project assisted SANRAL to design the future operating model to enable the organisation to achieve the Horizon 2030 strategic objectives. The project scope covered the following:

- assessment and review of the current operating model
- development of a new operating model
- development of a transition plan

SANRAL also reviewed its capability model as an essential part of the OMR review which does not only focus on the operating structure as a single component. The new operating model was approved by the Board in December 2020 to ensure a focused leadership. Management is currently preparing for the implementation of the new operating model over the next 12 months.

SANRAL has been investing in the youth with 220 scholarships awarded, an investment of R705,055,715 and 100 recipients of SANRAL external bursaries, an investment of R8,321,767, in 2020/21. A total investment of R2,635,617 was made to 127 employees, including 28 new applicants, who were awarded internal bursaries for tertiary studies included fields such as accounting, social sciences, project management, general management, human resources management and engineering for the period under review. More than half the internal bursary recipients (58%) were engaged in post-graduate studies.

SANRAL has expanded its external bursary programme and training offering in the Graduate Development Programme (GDP) to include a wider range of qualifications, including Finance, SCM, ICT, HR, labour relations, and marketing. The technical design focused Technical Excellence Academy (TEA), remains an innovative in-house programme, part of the GDP offered by SANRAL to civil engineering graduates. The Agency has now opened its doors to training graduates from other sectors as well. The year 2020 celebrated the Training Academy having a total 100 candidate engineers and technologists undergo training since commencement of the programme in 2013.

The principles in the Transformation Policy have been incorporated into the Proforma tender documents in order to remove previous obstacles and difficulties that new entities tendering for SANRAL, experienced. SANRAL has structured some of its projects in order to create opportunities for the smaller contractors of CIDB grade 6CE and higher to be able to participate in SANRAL tenders. The recent Routine Road Maintenance (RRM) main contractor tenders have resulted in several tenders being awarded to Black-owned entities who are working for SANRAL for the first time as main contractors. Many of these contractors had worked as sub-contractors on the RRM projects previously, so this will be a natural evolution and growth for these companies and an excellent outcome of the SANRAL mentoring and development programmes over the previous years. On the consulting front, all RRM consulting tenders have been restricted to EME's and QSE's that are BBBEE contributor level 1 or 2. This has resulted in great interest and competition from Black-owned entities in participating in these tenders—80 percent of these projects have been awarded to Black-owned entities. During the financial year 164 projects worth a total of R 17.9bn has been awarded to 51% or more Black-owned companies, this demonstrates in no uncertain terms that SANRAL is firmly on the road to use its procurement to transform the construction industry and its service providers.

With the imminent roll out of SANRAL's bigger construction projects the impact of the requirement for 30 percent of the work to be subcontracted to entities owned by individuals from the Designated Groups as per the 2017 PPPFA regulations will result in a larger portion of the SANRAL's construction work going to Black-owned entities. In order to prepare these contractors to participate meaningfully in this work, SANRAL will shortly be providing SAQA and CETA accredited training for these entities. This training will be offered to entities at no cost. The training will prepare the entities in how to tender, how to start and manage a business in the construction industry, how to manage its resources, how to produce the work required to the correct quality required , basic entrepreneurship and some pointers on how to source opportunities.

The training opportunities will be rolled progressively throughout the country in areas where SANRAL national road network traverses . The training initiative will result in many more entities being trained than the opportunities available on SANRAL projects , but this is the interests of developing and growing the local construction industry.

The COVID-19 Pandemic

The COVID-19 pandemic developed rapidly since December 2019. For SANRAL, the focus shifted to the safety and wellbeing of its employees and with a particular focus on limiting the impact of its service to the public. As a result, SANRAL immediately responded through the establishment of a COVID-19 Taskforce. The taskforce reviewed and updated relevant operating procedures and created standard response plans through scenario planning in order to navigate the various restrictions adopted by government. The primary focus was to:

- Ensure employee safety and well-being.
- Build resilience and prepare for recovery.
- Communicate effectively with stakeholders.
- Reshape our strategy to maintain business continuity.
- Supply Chain Continuity.

The pandemic forced the organisation to evolve and to accelerate its digital transformation roadmap and technology initiatives to bring about agility. The staff and service providers were pushed to transform the way they work and respond to the 'new normal' swiftly.

Business Impact

a. Expenditure on personal protective equipment and office dissinfection:

Goods and services procured for the year	Procurement processes followed	Cost
1. Spend on sanitisation of SANRAL buildings	RFQ's	**R878,907.00**
2. Spend on procurement of PPEs	National Treasury Instruction Note 8 of 2019/2020: Emergency procurement in response to national state of disaster	**R2,545,725.74**

b. Loss of toll revenue

Due to significant reduction in traffic, as a result of the Lockdown, SANRAL lost approximately R570 million of its toll revenue. Please refer to note 25(Revenue) of audited AFS, the following is indicated: "The COVID-19 lockdown had a significant impact on toll revenue, with an estimated budgeted loss of R570 million excluding GFIP. GFIP was excluded because it was already experiencing significant losses of income before COVID-19, therefore the impact of lock down on GFIP could not be estimated with a high degree of certainty without undue effort and cost. Therefore the loss of income on GFIP is assumed to be caused by other factors rather than the lockdown restrictions

c. Year-end processes
   The financial year end and audit processes for the 2020 financial year were disrupted as a result of the lockdown restriction. SANRAL implemented digital information with auditors and other counterparts to overcome any negative implication with audit processes and was able to mobilise resources for staff to continue with year-end processes during this period.

d. Budget realignment
   SANRAL realigned its budget by moving R2.53 billion to address COVID-19 and related operational requirements

Organisational structure

The Executive management of SANRAL consisted of the Chief Executive Officer, Mr S. Macozoma, Engineering Executive, Mr L. Kannemeyer, Chief Financial Officer, Ms I. Mulder and the acting Business Operations Executive, Mr A. Tomes.

They are supported by Mr I. Essa, the Head of Transformation, Mr T. Malahleha, the Head of Strategy, Ms B. Mgqibi, the Risk Officer, Adv S. Linda, the Head of Legal and the Chief Audit Executive, Ms L Pitse.

SANRAL is further divided into four regional offices and a corporate office. The regional managers are Mr P. Hlahla (Northern Region – Pretoria), Mr R. Cable (Western Region – Cape Town), Mr M. Peterson (Southern Region – Port Elizabeth), and Mr D. Nkabinde (Eastern Region – Pietermaritzburg).

Mr K. van der Walt was the Head of the Technical Excellence Academy until his retirement on 31 December 2020. This role is now being taken up by Mr R. van der Breda in an acting capacity whilst Operational Model transition is been finalised.

Financial results

In terms of legislation, funding for toll roads and non-toll roads are ring-fenced. SANRAL separates the business activities and accounting records into toll operations and non-toll operations. Non-toll roads are financed through parliamentary appropriations under the vote of the National Department of Transport.

For toll roads, the debt used to finance the initial construction of the road is repaid over a period of around 30 years primarily using the proceeds collected through tolling.

The financial statements on pages 56 to 165 set out fully the financial position, results of operations, changes in equity and cash flows of SANRAL for the financial year ended 31 March 2021. The discussion that follows sets out some of the highlights.

Review of profit and loss

Revenue

- Revenue from non-toll operations was R6 176 million for the year, which is a 5.7 percent decrease from the previous year. This is mainly as a result of the slower spending on projects, which led to a lower allocation of the non-toll grant to revenue. To comply with International Financial Reporting Standards (IFRS), the portion of the grant received from Government, which is utilised for capital projects, is capitalised and only recognised as revenue over the life of the asset. The total grant allocated in terms of the Budget Vote was R20 400 million, of which R3 130 million was allocated to GFIP. Of the R17 270 million allocated to non-toll, R1 432 million was capitalised for the year as it was spent on capital projects. The portion of previously deferred grants, which was realised in the current year, amounted to R2 340 million.

- The toll revenue from operations was R3 706 million for the year, which is a 15.2 percent decrease from the previous year amount of R4 370 million.

  The GFIP revenue decreased by R207 million (31.5 percent) from the prior year to R452 million. The lower revenue is because of the significant reduction in traffic volumes during the national lock down and the IFRS 15 requiring the entity to assess the intention of the customer at initial recognition. The inflation related tariff adjustment was 4.39 percent. An amount of R522 million (R600 million including VAT) was received from Government as a grant and a R2 200 million (R2 530 million including VAT) portion of the non-toll grant was reallocated to address the shortfall as a result of the low payment rate.

  The revenue from conventional toll routes decreased by 12.3 percent from R3 710 million to R3 254 million, with the same inflationary tariff adjustment of 4.39 percent.

- On conventional toll roads funded by SANRAL, the comprehensive toll road operations and maintenance (CTROM) contract model consolidates responsibility for operational activities and risks. Under this arrangement, the main contractor is responsible for the total operation of the specific toll route, together with assuming the associated risks. The operator pays the actual gross income (tariff x vehicle) to SANRAL and then claims discounts, concessions and violations as a cost, based on an agreed cost matrix. In essence the operator assumes the risk of collection.

- For the GFIP e-toll route, a service provider was appointed to manage the operations and collection. The operator is paid for services rendered to operate the tolling system and collect the toll on behalf of SANRAL. The risk of non-payment remains with SANRAL. The agreement with the operator includes performance clauses, as well as a performance guarantee in favour of SANRAL.

Finance charges

Net finance cost (finance cost less investment income) in 2021 was R2 270 million which is 13.4 percent lower than the prior year. This was due to higher cash holdings and maturing debt. All finance costs relate to toll operations.

Profit before taxation

- The profit after deducting finance costs amounted to R381 million (2020: R1 263 million).
- The non-toll operating profit after finance charges for the year ended 31 March 2021 was R836 million (2020: R711 million). Income, mainly comprising the grant received from Government, decreased by 0.5 percent, as a result of the slowdown in operational expenditure which meant that there was a lower allocation of the grant to revenue. Operational expenditure reduced by 1.9 percent, mainly as a result of delays in maintenance projects on roads, which reduced the expenditure. The ongoing capital spending on roads, involving rehabilitation and strengthening projects, resulted in 8.8 percent increase of depreciation to R2 336 million.
- The toll operating loss after finance charges for the year ended 31 March 2021 was R456 million (Profit in 2020: R552 million). An additional R2 200m was transfered to GFIP from non toll, for loss of income, in both 2020 and 2021 financial years. Repairs and maintenance decreased by R154 million (6.4 percent) to R2 246 million. Depreciation (including concession assets) increased by 9.8 percent to R1 897 million, due to additions on capital works in the toll portfolio.

Irregular expenditure and fruitless and wasteful expenditure

During the year under review irregular expenditure decreased by 48.8 percent from R342 million to R175 million. R81 million (46%) of the current irregular expenditure relates to irregular contracts identified in the current year. The remaining relates to expenditure on irregular contracts identified in prior years. Expenditure on these contracts continues to be classified as irregular until it is condoned by the relevant authority.

Fruitless and wastefull expenditure for the year amounted to R138 811. The expenditure relates to interest charged on the late payment of one court order. At year end the internal loss control committee was still assessing and determining the recoverability of the expenditure.

Taxation

SANRAL was exempted from income tax in the Government Gazette of 22 December 2003 (Revenue Laws Amendment Act, 2003 section 1(l) and 2(d)). This exemption was backdated to the inception of the entity, and therefore no provision is made for income tax or deferred tax.

Dividends

SANRAL does not declare dividends.

Review of financial position

Share capital

The shareholding for the current year has remained unchanged. The Government, represented by the Minister of Transport, holds all shares issued by SANRAL.

Land

SANRAL's property management is undertaken by a service provider that has the skills and resources required to manage and maintain SANRAL's large land portfolio, consisting of road reserve and adjacent severed properties. The service provider is a single entity that delivers comprehensive land surveying, property valuation, maintenance and management services. The service provider is managed by a team of SANRAL staff located in the regional and head offices.

The contractual targets with the property management company include a requirement that 50 percent of all work be sub-contracted. This provides opportunities for small and previously disadvantaged firms to obtain property work from SANRAL. The property management company has complied with contractual requirements related to the provision of training, promotion of economic development, addressing skills shortages and making work available to targeted groups. The current contract has been let to tender but has been split into three contracts for land acquisiton and survey, property management and valuation. Five contract were let for facilities management. This allows for more opportunities to contractors to partake in SANRAL contract. At year end, the Property Management contract and two Facilities Management contracts have been awarded.

In line with the SANRAL Act, SANRAL ensures that all land acquired by it or its predecessors, whether inside or outside of the road reserve, is identified and transferred into SANRAL's name. All land acquired by SANRAL since its inception has been so transferred. The land identification process and the transfer of land to SANRAL will continue where further roads are added to the network.

Land outside of road reserves is categorised as investment property or 'other' land if it has insignificant or no investment value. The road reserve consists of 35 630 properties, while investment property comprises 2 049 properties.

Property, plant and equipment

Road assets are valued on a depreciated replacement cost basis. The revaluation gain on road network and structures was reviewed at year-end and increased to R8 270 million.

The increase in road network and structures values was as a result of unit rates increasing by 1.56 percent, mainly due to materials and equipment cost increases over the period.

The value of land within the road reserve was reviewed at year-end and increased by 3.29% percent from R20,894,245,289 to R 21,580,794,030 due to:

a) Addition to the road network of 472.5321ha.

b) 805 assets added to SANRAL's portfolio changing the total from 34 825 to 35 630.

c) The average land value per hectare along national roads (strip value) increased from R204 765 to R207 714 (1.44%) The increase in value is mainly contributed to the increase in extent of the road reserve as well as the increase in registered parcels.

d) The total area of land increased with 472,53ha (0,45%) as a result of updated data on the previously incorporated roads and declaration of some of the roads by co-ordinates providing a more accurate measurement of properties that was previously only declared as National Roads by description.

The remaining life of these assets is considered when determining their depreciated replacement cost, taking the condition of the pavement into account. In the financial year, the average condition of national roads improved due to the capital strengthening projects completed, as well as lower rainfall. Further information is available in notes 4 and 5 of the financial statements.

SANRAL currently applies the benchmark treatment of International Accounting Standard (IAS) 16 on 'property, plant and equipment', which allows for the valuation of assets at fair value. As road assets are largely publicly owned and have rarely if ever been sold on the open market and they are mostly not created to produce revenue and therefore do not have a defined revenue stream, the typical 'market value' or 'revenue stream-based' valuation methods are not appropriate for road assets. The only remaining option for valuation of road assets is the revaluation model. For this SANRAL adopted the Depreciated Replacement Cost (DRC). The Depreciated Replacement Cost (DRC) is the Gross Replacement Cost (GRC) based on the cost of replacing an existing asset with a Modern Equivalent Asset (MEA) that provide similar performance using up to date technology and then appropriately reducing the GRC to reflect the current age, condition and performance of the existing asset.

In terms of IAS 36, assets must be assessed annually, and impairments recorded if their income generating potential is estimated to be less than the carrying value. Non-toll assets have been identified as a non-cash generating unit. IFRS does not prescribe the impairment of non-cash generating units and allows other standards to apply in such instances. SANRAL has elected to apply the International Public Sector Accounting Standard 21 to determine the carrying amount of a non-cash generating unit.

Investments

No significant acquisitions or disposals occurred in the period under review.

Financial instruments, in the market-making portfolio, are used to manage the risks that SANRAL is exposed to in the capital markets.

Trade and other Receivables

The trade and other receivables amount to R700 million. Gross toll debtors amounts to R9 779 million, which was reduced by an accumulated expected lifetime loss allowance of R9 646 million. Even though the debtor is not written off, the impairment reflects the expected losses and assessed annually at the end of each reporting period. The probability of debt collection is based on historic trends and future factors that affects the collection. Other receivables included in the balance are property debtors, sundry debtors and TRAC expansion fund amounts to R498m and related party debtors amounted to R353 million, before impairment.

Cash and Cash equivalents

At 31 March 2021, cash and cash equivalents held were R29 340 million (2020: R16 534 million). The significant increase in cash holdings is mainly as a result of underspending on projects on both toll and non-toll roads. The delay in the award and completion of contracts is the main contributor to this. Delays are attributed to construction stoppages as a result of community unrest as well as changes required on tender documents due to the new regulations. The weighted average investment rate for the current financial year was 4.64 percent (2020: 7.47 percent).

Going concern

The annual financial statements have been prepared based on accounting policies applicable to a going concern as management does not intend to liquidate the company, or cease trading, and management is also not in a position where it has no realistic alternative but to do so. This basis presumes that funds will be available to finance future operations and settle liabilities and other commitments that occur in the ordinary course of business.

Assets

At 31 March 2021 SANRAL's total assets were R480 509 million which are significant contributors to facilitating the movement of goods and services in the South African economy. The board acknowledges that current assets are adequate to cover current liabilities. Total current assets of R31 604 million include cash and cash equivalents of R29 340 million of which R27 240 million relates to non toll unspent grant allocation. Current liabilities of R21 887 million include deferred grant income of R14 400 million related to the unutilised portion of grant income which will not require actual cash settlement. Thus, the total cash in bank can fully settle current liabilities that require cash when they become due.

Liquidity

SANRAL receives an annual grant from the fiscus mainly to fund its non-toll road portfolio. During the year under review the government grant was R20 400 million, of which R3 130 million was allocated to toll. This grant covers operational and capital expenditure on non-toll roads which comprise 87% of SANRAL's road network (operations). The annual budget allocation is expected to increase to R21 599 million in 2022 and R21 279 million in 2023 financial years. The non-toll portfolio has no liquidity concerns.

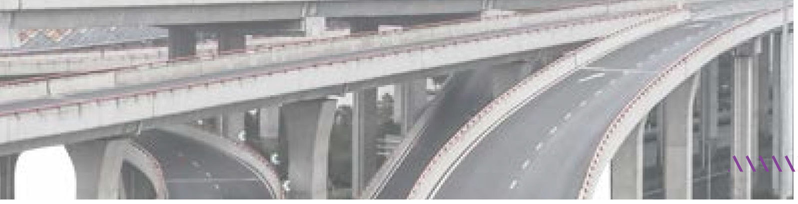
The toll portfolio income for the year under review has decreased to R3 706 million. The COVID-19 lock down had a significant impact on toll revenue, with a budgeted loss of R570 million. However, traffic returned to normal from lock down level 3. Management has acknowledged that the toll portfolio has liquidity concerns due to uncertainties on the continuation of the GFIP project. The 201km representing the GFIP road network, represents less than 1% of national road network or operations.

Government has indicated and shown its preparedness to provide financial support to the GFIP (e-tolls) project while a solution is awaited. SANRAL has therefore included a budgetary transfer of R3 250 million (excluding VAT) per annum over the MTEF ending 2022-23 financial year to cover the shortfall on e-tolls. Even though final approval of this additional transfer from Parliament is still awaited, based on past experience, management concludes that it is inevitable that it will be granted to ensure that the entity does not default. The material uncertainties on the future of GFIP as a going concern on its own, are expected to be mitigated through direct overnment support and feasible sources of financing (detailed below). The conventional toll plazas do not have liquidity or going concerns issues.

The non-toll portfolio currently has a significant cash surplus of R27 240 million, and is expected to remain cash positive well into the foreseeable future, due to the MTEF allocations and the spending patterns. As a single entity SANRAL has significant cash reserves and access to funds to remain a going concern into the foreseeable future.

Funding actions plans on the toll portfolio:

As at 31 March 2021 cash flow projections currently show that SANRAL's cash reserves for the toll portfolio remain cash positive until February 2022. These cash flow projections showed an expected deficit of R1 513 million from March 2022. , but it excludes the expected additional grant of R3 250 million, which has been budgeted for. Subsequent funding actions of R1 237 million and the annual GFIP grant of R654m, as well as the expected rollover of R1 200 million Promissory Notes in February 2022. After the assessing of the quality (government backed) of the asset against the return it remains highly attractive to investors and expectation is that the investors will roll over the Promissory Notes again. SANRAL plans to refinance R3 650 million three-year floating rate notes in July 2022. It is therefore expected that SANRAL will have positive cash flows until July 2022.



SANRAL has R8 740 million available under R31 910 million government guaranteed DMTN programme. In April 2021 SANRAL raised R1 237 million through the issuance of R567 million HWAY34, R170m HWAY33 and R500m HWAY30 bonds. The appetite at the long end of the market, reduces the refinancing risk and allows for the pre-funding of shorter dated maturities. There is sufficient appetite in the market and ample available government guarantees and borrowing limit to consider further issuance as required.

Conclusion

From the evidence of approved transfers of funds from non-toll and toll in the past years, the separation lines between toll and non-toll are less severe, even though legislative requirements must still be followed. Government views operations and management of national roads as a single mandate. Therefore, the assessment of the going concern and the financial status of the entity is done as a single entity.

Even though a significant portion of SANRAL's debt is guaranteed by government, government has elected on several occasions to avert a default by providing funding to SANRAL, pending the outcome of the e-toll decision by Cabinet. It is therefore assumed that Government will continue to provide financial assistance for a foreseeable future unless a final policy decision is made to direct the future of road funding. Furthermore, SANRAL may not be placed under judicial management or in liquidation except by an act of Parliament (section 10 of the South African National Roads Agency and National Roads Act).

Although there is material uncertainties on the toll portfolio, there is no significant doubts about going concerns of SANRAL as a whole after considering the potential mitigation actions and the significant cash reserves. The Board therefore supports management's assessment that SANRAL will remain a going concern in the foreseeable future. The Board is fully aware of the liquidity risk it faces in the short term and is actively engaging with government to resolve the matter.

Auditors

The Auditor-General (AGSA) is the external auditor of SANRAL, as prescribed in section 36(3)(a) of the SANRAL Act.

Materiality framework

A materiality framework has been developed for reporting losses through criminal conduct, irregular, fruitless and wasteful expenditure or significant transactions that require ministerial approval, as envisaged in section 54(2) of the PFMA. The framework was finalised by SANRAL after consultation with external and internal auditors, and formally approved by the Board on 25 May 2004. The framework was updated in March 2021 to incorporate the latest audited annual financial statements, resulting in a materiality value of R221 million.

Contingent liabilities

The potential liability arising from the levying of municipal rates on SANRAL's land is estimated at R70m (2020: R91 million). These rates have not yet been introduced and the large reduction in liability is as a result of the phasing out process of rates on Public Sector Infrastructure.

In addition, potential claims may arise due to SANRALs mutual and several liability on the Maputo Development Corridor. Failure of the Mozambique Government to implement overload control measures and increase tolls as stipulated in the contract with the concessionaire may result in claims. The value of the estimated overload claim is R58 million (2020: R103 million), whereas the exposure relating to the toll tariff is estimated at R19 million (2020: R16 million).

Credit rating

SANRAL's debt mainly comprises bonds that are listed and traded on the Johannesburg Stock Exchange (JSE), although there are a few unlisted instruments. The borrowing limit approved by Government is approximately R47 910 million (depending on CPI assumptions). Up to R37 910 million of this amount can be guaranteed.

To facilitate investment in its debt, related to its toll portfolio, SANRAL has been rated by the international credit rating agency, Moody's, since March 2007. Global Credit Ratings (GCR) won the tender to take over the rating of SANRAL at the end of the contract with Moody's in 2018, but Moody's chose to continue to provide SANRAL with a rating without compensation. The credit rating enables SANRAL to raise unguaranteed and guaranteed debt competitively.

SANRAL's first national scale rating from GCR, issued on 13 August 2019, was at A and A1 for the long and short term respectively and BB- for the long-term international scale rating with a stable outlook. GCR cites SANRAL's substantial financial support from Government as the basis for the rating. It also emphasises that the support is both for ongoing operational requirements and anticipated extraordinary requirements and that it expects this support to continue.

Both GCR and Moody's reflect that this strong support is evidenced by the once off grant of R5.8bn in 2012, changes to SANRAL's government guarantee in April 2014 to the benefit of noteholders, a pledge in May 2015 to pay SANRAL R390 million per year for 22 years (indexed to CPI), the approval in March 2018 of un-earmarking of an amount of R1.9 billion to fund the shortfall in revenue from the Gauteng Freeway Improvement Project (GFIP) as well as in August 2018 of an amount of R5.75 billion and R2.53 billion in September 2019 and again in September 2020.

Moody's considered as negative the weak cash flow from GFIP, high capital spending pressure for existing toll roads and the very high debt level as a result of GFIP.

The ratings, as at 31 March 2021, are as follows:

	GCR	Moody's
Date of last review	8 July 2020	25 November 2020
National Scale Issuer: Long term	A	A1
National Scale Issuer: Short term	A1	P-1
Global Scale Issuer: Long term	B+	Ba3
Global Scale Issuer: Short term		NP
Outlook	Negative	Negative

Concessions

In addition to its parliamentary appropriation, SANRAL has implemented concessions as an alternative means of financing and operating the national road network, with the costs recovered through user charges. PPPs allow SANRAL to leverage funding available from the private sector to meet identified infrastructure and service delivery needs in a manner that is cost-effective and appropriate to each project. Furthermore, they ensure that financing is set aside for the improvement and preservation of the country's road assets for periods well beyond Government's three-year expenditure horizon. Annually the benefit is reflected in the increased values under Property, Plant and Equipment (PPE) under concession as the concessionaires upgrade the roads which belong to SANRAL.

The agreement with Trans African Concessions (Pty) Ltd (TRAC) became effective on 6 February 1998 and terminates on 5 February 2028. This includes the extension of the N4 as agreed during the 2005 financial year.

The agreement with N3 Toll Concessions (RF) Proprietary Limited (N3TC) became effective on 2 November 1999 and terminates on 1 November 2029.

The agreement with the N1-N4 Bakwena Platinum Corridor Concessionaire (Pty) Ltd (Bakwena) became effective on 27 August 2001 and terminates on 26 August 2031.

SANRAL has considered the implications of International Financial Reporting Interpretation Code 12 and the Accounting Standards Board's guideline in terms of accounting for assets under concessions and has decided to account for these assets by recording these as property, plant and equipment. In the absence of clear accounting guidance from these guidelines, SANRAL has set out its interpretation in note 4.

Subsequent events

On 4 May 2021, Global credit rating (GCR) issued a credit rating announcement, where it has downgraded SANRAL national scale issuer ratings from A(ZA) to A-(ZA) and A1(ZA) to A2(ZA) for the long and short term respectively, the outlook remains on Negative. Concurrently, the long-term international scale issuer rating assigned to SANRAL has been affirmed at B+, outlook Negative.

The downgrade on SANRAL's national scale credit ratings reflects the high refinancing requirements over the medium term, coinciding with a lesser assurance of financial support from the National Government for State Owned Companies because of a weakened fiscal position. The agency indicated the rating could improve if there is a resolution to the GFIP toll payment issues, that would allow SANRAL to move towards financial self-sustainability.

The GCR report/announcement recognises SANRAL's critical role in facilitating the economy, with its position mandated and protected by legislation. Support has been demonstrated through continued disbursement of budgeted grants and unearmarked fund transfers. Accordingly, the current rating is premised on the expectation that the SANRAL will be able to achieve large debt refinancing on an ongoing basis over the medium term.

On 13 May 2021, the Minister of Transport appointed Mr E Makhubela to the Board of SANRAL, to replace Ms Halstead as the representative from National Treasury.

On 6 July 2021 HWAY30 and HWAY34 were authorised for issue for R300 million and R700 million respectively under the R31 910 million DMTN programme to boost liquidity. Between 01 June 2021 and 13 August 2021, R9 567 million of the accumulated irregular expenditure identified in prior years was condoned by National Treasury. Between 12 and 17 July 2021, there was a widespread unrest experienced in KwaZulu-Natal and Gauteng province which resulted in damage to SANRAL's toll plazas and road networks in KwaZulu-Natal. Traffic movements was impacted due to closure of major toll routes on N2 and N3, which ultimately resulted in toll revenue losses. The total estimated cost and loss of income to SANRAL amounted to R61m.

Directors and secretary

The Board, as appointed by the Minister, comprised the following individuals:

- **Executive Director**
  Mr S Macozoma (Chief Executive Officer)
- **Non-executive Directors** Mr T Mhambi (Chairperson)
  Mr R Haswell
  Ms L Madlala
  Mr T Matosa
  Ms A Halstead (Public official)*
  - resigned on 30 November 2020
  Mr A Moemi (Public official)**
  - replaced Mr P Mohan on 14 July 2020

* Ms Halstead was the appointed representative of the Minister of Finance and was an employee of National Treasury.

** Mr Moemi is the appointed representative of the Minister of Transport and is an employee of the Department of Transport. He replaced Mr P Mohan on 14 July 2020.

For the year under review Ms A. Mathew held the position of Company Secretary.

Directors' interests in contracts

All directors and officers of SANRAL have confirmed that they had no interest in any contract of significance with SANRAL which could have resulted in a conflict of interest during the current year.

Addresses

SANRAL's business, postal and registered addresses are as follows:

Business address:	Postal address :	Registered address:
48 Tambotie Avenue	P.O. Box 415	48 Tambotie Avenue
Val de Grace	Pretoria	Val de Grace
Pretoria	0001	Pretoria
0184		0184

STATEMENT OF RESPONSIBILITY BY BOARD OF DIRECTORS

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 July 2022 and, in light of this going concern review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 56 to 165.

The annual financial statements set out on pages 56 to 165, which have been prepared on the going concern basis, were approved by the board on 27 May 2021 and were signed on their behalf.

Signed on behalf of the Board of Directors by:

TB MHAMBI (Chairperson)
27 May 2021

CERTIFICATE OF THE COMPANY SECRETARY

I hereby confirm in terms of Companies Act, (Act No. 71 of 2008), as amended, that for the financial year ended 31 March 2021, the South African National Roads Agency SOC Limited has lodged with the Companies and Intellectual Property Commission, all returns as are required in terms of this Act, and that all such returns are true, correct and up to date.

ALICE MATHEW
Company Secretary

17 May 2021

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Construction and maintenance of the national road network and structures
Directors	Mr RF Haswell (Independent) Mr S Macozoma (Chief Executive Officer) Ms L Madlala (Independent) Mr E Makhubela (Independent) Mr TP Matosa (Independent) Mr TB Mhambi (Chairperson) Mr A Moemi (Public official)
Registered office	48 Tambotie Avenue Val de Grace Pretoria 0184
Postal address	PO Box 415 Pretoria 0001
Holding company	Department of Transport
Auditors	The Auditor-General of South Africa Chartered Accountants (S.A.) Registered Auditors
Level of assurance	These annual financial statements have been audited in compliance with s29(1)(e)(aa) of the Companies Act 71 of 2008.
Preparer	The annual financial statements were prepared by: Inge Mulder CA (SA)
Approved	27 May 2021

The South African National Roads Agency SOC Limited
(Registration number 1998/009584/30)
Annual Financial Statements for the year ended 31 March 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Note(s)	2021 R '000	2020 R '000
Assets			
Non-Current Assets			
Property, plant and equipment under concession	4	58 118 856	56 779 342
Property, plant and equipment	5	388 162 849	381 578 021
Investment property	7	1 741 728	1 788 477
Intangible assets	8	105 812	168 953
Financial assets at amortised cost	9	533 976	477 584
Trade and other receivables	11	227 443	354 288
		448 890 664	**441 146 665**
Current Assets			
Financial assets at amortised cost	9	1 000 000	2 500 000
Financial assets at fair value	10	791 853	1 492 538
Trade and other receivables	11	472 235	386 268
Cash and cash equivalents	12	29 340 291	16 533 894
		31 604 379	**20 912 700**
Non-current assets held for sale	13	13 687	22 613
Total Assets		**480 508 730**	**462 081 978**
Equity and Liabilities			
Equity			
Share capital	14	1 091 044	1 091 044
Reserves	15	353 529 343	345 258 411
Accumulated loss	15	(14 468 488)	(14 853 392)
		340 151 899	**331 496 063**
Liabilities			
Non-Current Liabilities			
Financial liabilities at amortised cost	16	39 994 710	38 049 356
Financial liabilities at fair value through profit or loss	17	3 716 456	3 033 159
Retirement benefit obligation	18	50 841	47 976
Deferred income	19	64 606 726	55 087 397
Provisions	20	384 890	379 128
Deferred exchange consideration	21	9 715 862	9 204 761
		118 469 485	**105 801 777**
Current Liabilities			
Financial liabilities at amortised cost	16	1 192 613	4 946 744
Financial liabilities at fair value through profit or loss	17	1 032 654	1 725 911
Retirement benefit obligation	18	1 877	1 650
Deferred income	19	14 401 040	12 884 156
Provisions	20	556	965
Deferred exchange consideration	21	859 489	736 236
Third-party funding	22	280 855	256 528
Trade and other payables	23	4 118 262	4 231 948
		21 887 346	**24 784 138**
Total Liabilities		**140 356 831**	**130 585 915**
Total Equity and Liabilities		**480 508 730**	**462 081 978**

The South African National Roads Agency SOC Limited
(Registration number 1998/009584/30)
Annual Financial Statements for the year ended 31 March 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Note(s)	2021 R '000	2020 R '000
Revenue	25	12 604 362	13 589 980
Other income	26	1 580 559	1 071 320
Other operating gains/(losses)	27	(252 922)	281 871
Operating expenses	28	(11 234 341)	(11 073 901)
Operating profit		**2 697 658**	**3 869 270**
Finance income	29	1 420 419	1 478 132
Finance costs	29	(3 690 200)	(4 098 235)
Fair value gains/(losses) on investment properties		(47 095)	14 174
Profit for the year		**380 782**	**1 263 341**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements on net defined benefit liability	18	4 122	8 983
Gains on property revaluation	15	8 270 932	36 412 590
Total items that will not be reclassified to profit or loss		**8 275 054**	**36 421 573**
Other comprehensive income for the year net of taxation		**8 275 054**	**36 421 573**
Total comprehensive income for the year		**8 655 836**	**37 684 914**

The South African National Roads Agency SOC Limited
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Annual Financial Statements for the year ended 31 March 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	Share capital R'000	Share premium R'000	Total share capital R'000	Revaluation reserve R'000	Accumulated loss R'000	Total equity R'000
Balance at 01 April 2019	**4**	**1 091 040**	**1 091 044**	**308 845 821**	**(16 125 716)**	**293 811 149**
Profit for the year	-	-	-	-	1 263 341	1 263 341
Other comprehensive income	-	-	-	36 412 590	8 983	36 421 573
Total comprehensive income for the year	**-**	**-**	**-**	**36 412 590**	**1 272 324**	**37 684 914**
Balance at 1 April 2020	**4**	**1 091 040**	**1 091 044**	**345 258 411**	**(14 853 392)**	**331 496 063**
Profit for the year	-	-	-	-	380 782	380 782
Other comprehensive income	-	-	-	8 270 932	4 122	8 275 054
Total comprehensive income for the year	**-**	**-**	**-**	**8 270 932**	**384 904**	**8 655 836**
Balance at 31 March 2021	**4**	**1 091 040**	**1 091 044**	**353 529 343**	**(14 468 488)**	**340 151 899**
Note(s)14	**14**	**14**	**14**	**15**	**15**	

The South African National Roads Agency SOC Limited
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Annual Financial Statements for the year ended 31 March 2021

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	Note(s)	2021 R '000	2020 R '000
Cash flows from operating activities			
Cash receipts from customers	30	23 078 751	23 387 238
Cash paid to suppliers and employees	31	(7 111 843)	(8 542 742)
Cash generated from operations	**32**	**15 966 908**	**14 844 496**
Interest received		1 386 370	1 231 977
Interest paid		(3 500 776)	(3 785 962)
Net cash from operating activities		**13 852 502**	**12 290 511**
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		(2 336 943)	(3 817 756)
Proceeds on disposal of investment property		3 155	12 109
Payments for purchases of intangible assets	8	(15 878)	(18 091)
Proceeds from sale (payments of purchase) of financial assets at fair value		700 686	(1 383 068)
Proceeds from sale (payments of purchase) of financial assets at amortised cost		1 443 608	(2 548 152)
Net cash from investing activities		**(205 372)**	**(7 754 958)**
Cash flows from financing activities			
Net repayment of financial liabilities at amortised cost	33	(2 017 165)	-
Net proceeds from financial liabilities at amortised cost	33	-	493 175
Net repayment of financial liabilities at fair value through profit or loss	33	(281 374)	(247 855)
Net proceeds (payments) of third-party funding	33	25 666	(7 306)
Capital portion of government grant	34	1 432 140	3 020 219
Net cash from financing activities		**(840 733)**	**3 258 233**
Total cash movement for the year		**12 806 397**	**7 793 786**
Cash at the beginning of the year		16 533 894	8 740 108
Total cash at end of the year	**12**	**29 340 291**	**16 533 894**

CORPORATE INFORMATION

The South African National Roads Agency SOC Limited (SANRAL) is a not-for-profit state-owned entity incorporated and domiciled in South Africa.

The entity's primary business is the construction and maintenance of the South African national road networks and structures. The annual financial statements have been prepared by Inge Mulder (CA (SA)) and have been audited in compliance with section 29(1)(e)(aa) of the Companies Act 71 of 2008. The annual financial statements for the year ended 31 March 2021 were authorised for issue by the Board on 27 May 2021. The Board may amend the financial statements after this approval. The audit was concluded on 13 August 2021..

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparation

The annual financial statements have been prepared on an going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements, the Public Financial Management Act 1 of 1999 (PFMA), the South African National Roads Agency Limited and National Roads Act 7 of 1998 and the Companies Act of South Africa, as amended.

The annual financial statements have been prepared on the historic cost convention except for those items that are measured at fair value or revalued amounts as stated in the accounting policies which follow. They are presented in South African Rands (R's), which is the entity's functional currency and are rounded to the nearest thousand.

Directive 12 issued by the Accounting Standards Board (ASB)

Directive 12 issued by the Accounting Standards Board (ASB) requires SANRAL, as a schedule 3A entity, to apply the standards of Generally Recognised Accounting Practice (GRAP) as a reporting framework from 1 April 2018. SANRAL applied to be exempted from applying GRAP and to continue applying IFRS as its reporting framework. The initial exemption was granted by National Treasury for SANRAL to prepare its annual financial statements in accordance with IFRS, which was gazetted on 12 April 2019 and valid up to 2021 financial year. A further two-year exemption was gazetted on 30 April 2021 and is valid until the 2023 financial year. The extension of the exemption allows the entity to prepare for the adoption of GRAP standards.

Going concern

The Board of Directors has, at the time of approving the annual financial statements, a reasonable expectation that the entity will have adequate resources to continue operating and settle its debts when they become due for the foreseeable future at least, but not limited to, 12 months from the end of the reporting date. Thus, the going concern basis of accounting principles has been adopted in the preparation of annual financial statements. More details are contained in the directors report and note 44.

1.2 Significant judgments and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the current 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 estimates are revised and in any future periods affected.

1.2 Significant judgements and sources of estimation uncertainty (continued).

Critical judgments in applying accounting policies

The critical judgments made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Revenue recognition

SANRAL derives revenue from conventional toll and e-toll fees charged on road users passing through the toll gates and e-toll gantries. Revenue from toll transactions is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which SANRAL expects to be entitled in exchange for those services.

Revenue is recognised only when it is probable, on transaction date, that the entity will collect the transaction price. As a practical expedient, the entity opted to assess the revenue collection threshold on portfolio basis rather than on individual contracts with customers. Thus GFIP revenue (e-tolls) is assessed separately from conventional toll plaza revenue.

In making their judgment, management considered the detailed criteria for the recognition of revenue as set out in IFRS 15 and, in particular, whether the entity had transferred control of the services to the customer or had completed a contractual performance obligation at transaction date.

Revenue is only recognised as and when the entity satisfies the performance obligation in the contract. The transaction price is the toll tariff per vehicle type as approved by the Minister.

When the entity satisfies the performance obligation, the entity recognises the transaction price as revenue. Revenue excludes amounts collected on behalf of third parties and exempt transactions.

Critical judgments in recognising revenue

Contracts with customers are assumed as there are no written contracts with road users. Once a motorist has passed through the toll gate or gantry on national tolled roads, it is assumed that the customer has entered into a contract with SANRAL and is aware of the entity's performance obligation and the transaction price (tariff payable) as it is advertised a distance before on and off-ramps and before approaching the toll gate or gantry. The customer is deemed to have accepted the terms therefore the entity has completed its performance obligations for that transaction. The road user is therefore liable for the amount payable. Non-registered users have seven days to settle their accounts from date of transaction while registered users have a 31 days' grace period.

In identifying contracts with customers management assesses the probability of collection by considering the ability and intention of customers to pay the consideration on the transaction date. Management evaluated the compliance rate of customers using available historical data to determine the probability of collection and to identify valid contracts with customers for revenue recognition. Revenue from contracts with customers that does not meet the criteria above is continually monitored and will be recognised when paid.

Revenue from contracts with customers is recognised over a period of time as the entity provide services to the road users by allowing them access to the road until they pass a gantry or toll gate. However, the nature of these services does not take a substantial amount of time to complete a performance obligation thus the revenue is recognised as if it is at a point in time rather than over a period of time.

The payment terms are 31 days, which is less than 12 months between performance and payment, therefore there is no significant financing component.

1.2 Significant judgments and sources of estimation uncertainty (continued)

Other assumptions

The entity does not incur significant or material costs to obtain contracts with customers.

Road users qualify for discounts if they settle their accounts within seven days and 31 days for non-registered and registered users respectively. If the account is not settled within the required timeframe, the transaction price reverts back to the full price. Thus the transaction price involves a variable consideration. For completed contracts that have such a variable consideration, the entity determines the transaction price by using the expected value method based on past trends. The entity assumes that e-toll customers would take advantage of the discounts at recognition of revenue and the accounts revert back to the full amount when unpaid transactions are transferred to the Violations Processing Centre (VPC).

Significant judgments on lessee accounting

The leases held by SANRAL are not significant to its operations therefore not considered as material both in nature and in amount.

Key sources of estimation uncertainty

Expected credit losses of financial assets The impairment provisions for financial assets are based on assumptions about the risk of default and expected loss rates. The entity uses judgment in making these assumptions and selecting the inputs to the impairment calculation based on the entity's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

Trade and other receivables

Trade and other receivables are recognised initially at the transaction price as per IFRS 15 provisions. Trade and other receivables do not contain a significant financing component in accordance with IFRS 15 as customers are expected to settle their accounts within a period of 12 months. Subsequently, trade and other receivables are measured at amortised cost less the lifetime expected credit loss allowance. The entity assesses its trade and other receivables for credit loss at the end of each reporting period using the simplified approach. A loss allowance is recorded in profit or loss.

The lifetime credit loss is calculated based on historical loss ratios/trends, adjusted for any other available information and other indicators present at the reporting date that correlate with defaults on a collective basis.

In assessing toll debtors for expected credit loss (impairment), significant judgments and assumptions are considered based on the current prevailing conditions, forward-looking factors and historical trends. There is uncertainty with regard to the future of e-tolls due to interventions by political parties and other civil organisations against e-tolls. This had a significant impact on the expected credit loss allowance and the assessment of the probability of revenue recognition. The default period is 31 days, all debt older than 31 days is assessed for life time expected credit loss.

Capped insurance receivable at amortised cost

Based on past experience, management has assessed the risk of credit losses as low because the deposit is held with institutions that have a national scale credit rating of A1 and above. This asset earns interest on a monthly basis which the debtor has been servicing without fail. Thus the fair value of the asset has been increasing on an annual basis. Consequently no expected credit loss allowance was made. Refer to note 9.

Fair value estimation

Financial and non-financial assets and liabilities of the entity are either measured or disclosed at fair value. Investment properties (note 1.3) and certain financial assets and liabilities (note 1.6) of the entity are measured at fair value and/or disclosure is made of their fair values.

ACCOUNTING POLICIES

1.2 Significant judgments and sources of estimation uncertainty (continued)

When measuring the fair value of an asset or liability the entity uses observable market data as inputs to the extent that it is available. Qualified independent valuers are consulted for the determination of appropriate valuation techniques and inputs where appropriate. Fair values are categorised into valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included in level 1 that are observable for assets or liabilities either directly or indirectly
- Level 3: inputs for the assets and liabilities that are not based on any observable market data (unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The entity uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows and amortised cost, are used to determine the fair value for the remaining financial instruments.

The entity recognises any transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about the fair value hierarchy, assumptions, specific techniques and inputs of the qualifying assets and liabilities are disclosed in note 39 and note 40.

The entity obtains independent valuations for its investment properties and for owner-occupied land at the end of each financial year. Road network and structures are valued at depreciated replacement cost as described in notes 4 and 5.

Impairment of non-financial assets

The entity assesses assets for impairment annually. Where impairment indicators are identified, management determines the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Property, plant and equipment, including those under concession and wayleaves, are assessed annually for impairment using the loans supported by revenue (LSR) method excluding office furniture, vehicles and equipment.

Useful lives of property, plant and equipment

Management assesses the appropriateness of the useful lives of property, plant and equipment at the end of each reporting period. The useful lives of motor vehicles, furniture and computer equipment are determined based on the entity's replacement policies considering the commercial and economical forecasts. Refer to note 1.4 for the estimated useful lives for property, plant and equipment and note 1.5 for intangible assets.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available to management. The entity uses the weighted average cost of capital rate in calculating the liability for overload control. A provision for overload control relates to claims from concessionaires against SANRAL for damage to pavements as a result of overloading on the various concession routes. The estimation is calculated using SANRAL overload software annually at year end. A combination of actual historic overload data and projected future overload up to end of concession period is used in the calculations. Additional disclosure of these estimates of provisions are included in note 20.

1.2 Significant judgments and sources of estimation uncertainty (continued)

Contingent assets and liabilities

Management applies its judgment to the facts, patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable or remote. This judgment is used to determine if the obligation is recognised a liability or disclosed as a contingent assets or liability (note 36).

Commitments for capital project expenditure

Items are classified as commitments when an entity has committed itself to future actions that result in cash outflows. Commitments comprise estimated capital expenditure (contract amounts less capital expenditure already recognised) as approved by the board of directors or delegated authority. Refer to note 35.

Post-employment benefit obligations

In applying its judgment to defined benefit plans, management consulted with independent external experts to determine the fair value of employee benefits. The critical estimates as used in each benefit plan are detailed in note 18 to the financial statements. The actuarial gains and losses on the employees' benefits are calculated in terms of three main components, namely: the effect of changes to the economic assumptions, number of members, and changes in the experience compared to what was expected as at the previous valuation.

1.3 Investment property

SANRAL's primary responsibility relates to the construction and maintenance of national roads but, in execution of its normal responsibilities, SANRAL may also become the owner of surplus land (outside road reserve). Although such land is often alienated, SANRAL does not, per se, hold it for sale as part of its ordinary course of business. All surplus land that is not "owner occupied" is considered to be investment property taking into account the company policy (R10 000 threshold).

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably. Investment property is held either to earn rental income or for capital appreciation or for both purposes.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Subsequent to initial measurement, investment properties are carried at fair value which is considered to be market value at reporting date. The fair value on investment properties is determined by independent external valuers at the end of each reporting period. The fair value of investment properties was determined using the widely accepted "comparable sales method", taking into consideration the size, shape, accessibility and existing rights of the property.

In certain circumstances it is difficult to distinguish between investment property and owner-occupied property. In those circumstances the criteria used to distinguish what is investment property is based on the use. Where property within road reserve is leased together with a portion outside the road reserve, the whole lease property will be regarded as investment property. When the use of investment property changes such that it is reclassified as property, plant and equipment, its carrying value/cost is the fair value on the date of reclassification for subsequent accounting. Investment property classified as held for sale is measured in terms of IFRS 5. Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected. When investment property is derecognised, the carrying value is eliminated from the statement of financial position and the gains or losses arising from the disposal is recognised in profit or loss in the year of disposal.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

1.4 Property, plant and equipment including PPE under concession

Property, plant and equipment are tangible assets which the entity holds for its own use or for rental to others and which are expected to be used for more than one year.

Recognition and measurement

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the entity, and the cost of the item can be measured reliably. SANRAL has assets measured under the cost model and under the revaluation model.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets.

Subsequent to initial recognition, property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses, except for land, road structures and road networks which are stated at revalued amounts. The revalued amount is the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

Land, road structures and road networks are subsequently stated at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. An overall priority index and overall condition index are applied to calculate the depreciation on the revaluation gain. This model is used to calculate depreciation on historical cost of the revalued assets as well. Increases in the carrying amounts arising on revaluation of land and buildings are recognised in other comprehensive income and accumulated in reserves in shareholders' equity.

Revaluations are made annually such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting date.

When an item of property, plant and equipment is revalued, the gross carrying amount is adjusted consistently with the revaluation of the carrying amount. The accumulated depreciation at that date is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is recognised in other comprehensive income and accumulated in the revaluation reserve in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current year. The decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in the revaluation reserve in equity.

Non-toll assets are non-cash-generating assets. Non-toll assets do not create cash flows from their use, and a market for nontoll roads does not exist. IFRS does not specifically cover the impairment of non-cash-generating assets and in such cases it allows other sources such as pronouncements of other standard setting bodies to be considered. Therefore the use of IPSAS is not a departure from IFRS. The determination of the carrying amounts of non-cash-generating assets is guided by the International Public Sector Accounting Standard (IPSAS 17). IPSAS 17 paragraph 14 states that, 'the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably.'

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as deemed appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the

1.4 Property, plant and equipment including PPE under concession (continued)

item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance costs are recognised in profit or loss during the reporting period in which they are incurred.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the entity. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Buildings	Straight line	50 years
Equipment, vehicles and furniture	Straight line	3 - 30 years
Road network - road beds	Straight line	50 years
Road network - pavement layers	Straight line	20 years
Road structures	Straight line	50 years
Right of use assets	Straight line	1 - 3 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Road beds are initially assumed to have a useful life of 50 years. For pavement layers and structures, the associated depreciation rate is related to condition indexes calculated from detailed condition assessments. The frequency of these condition assessments is related to the deterioration trend of the asset component and ranges from one to five years.

For roads that are still in use, the road beds will have a minimum remaining life of three years. This limit is introduced to prevent anomaly of road sections that are in daily use yet roadbed is valued at zero.

Land is not depreciated.

The depreciation charge for each year is recognised in profit or loss.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

Impairment indicators includes the deterioration of physical condition office furniture, equipment and vehicle. SANRAL uses Loan Supportable by Revenue (LSR) model to assess impairment for toll plazas. The LSR is defined as the present value of the capital and/or money market loans that a toll project will be able to service and repay from its net revenue during a selected evaluation period. The model provides the predicted capital and money market debt levels at the end of each financial year putting SANRAL in a position where it can evaluate its current and predicted financial viability of toll plaza. A negative results of a particular toll plaza means the plaza is impaired.

1.4 Property, plant and equipment including PPE under concession (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.5 Intangible assets

An intangible asset (purchased and internally generated) is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity
- The cost of the asset can be measured reliably

Intangible assets, whether purchased or internally generated are initially recognised at cost.

SANRAL has two types of intangible assets namely computer software and wayleaves

Computer Software

Purchased computer software are subsequently recognised at cost less accumulated amortisation and impairment loss.

Computer software arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale.
- There is an intention to complete and use or sell it.
- There is an ability to use or sell it.
- It will generate probable future economic benefits.
- There are available technical, financial and other resources to complete the development and to use or sell the asset.
- The expenditure attributable to the asset during its development can be measured reliably.

Capitalised development cost are recognised and amortised when the asset is becomes available for its intended use.

All costs associated with the maintenance of the computer software are recognised as an expense when incurred.

Wayleaves

A wayleave is a right of access to a property. All wayleave agreements are with respective landowners.

SANRAL has two types of wayleave agreements:

- Finite wayleave agreements are wayleaves that have a finite period as per the contract. Finite agreements are as a result of SANRAL needing rights to access for a defined period, which is called the contract period. The landowners make the required part of their premises available to SANRAL for an agreed upon period of time in return for an agreed upon amount. The contract amount is then capitalised and amortised over the contract period.
- Indefinite wayleave agreements are wayleaves that have an indefinite contractual period. Indefinite agreements are entered into where SANRAL reserves the right to access the property but not the ownership of the property (e.g. communal/tribal land that cannot be transferred back to the landowner). The contract amount is capitalised and the wayleaves are not amortised.

Amortisation commences when the intangible assets are available for their intended use.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.5 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Subsequent expenditure on capitalised intangible assets is capitalised only when it is probable that additional future economic benefits embodied within the wayleave will flow to the entity and the cost of such items can be measured reliably. All other expenditure is expensed when incurred.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Amortisation method	Useful life
Computer software	Straight line	10 - 15 years
Finite wayleave agreements	Straight line	Contract period
Indefinite wayleave agreements	None	Not amortised

Intangible assets are derecognised:
- On disposal
- When no future economic benefits are expected from their use or disposal

1.6 Financial instruments

Financial instruments held by the entity are classified in accordance with the provisions of IFRS 9 Financial Instruments.

All regular way purchases or sales of financial assets or liabilities are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Broadly, the classification possibilities, which are adopted by the entity are as follows:

Financial Assets

Financial assets are classified as follows:
- Amortised cost
- Mandatorily at fair value through profit or loss
- Designated at fair value through profit or loss

Financial assets classified and subsequently measured at amortised cost are: cash and cash equivalents, fixed deposits, capped insurance receivable and trade and other receivables.

Financial assets classified and subsequently measured at fair value through profit or loss are: capital market bonds held for trading in the market-making portfolio.

The classification of financial assets depends on the contractual cash flows (CCF) characteristics and the entity's business model for managing financial assets at initial recognition. Financial assets that do not offer the contractual cash flows

ACCOUNTING POLICIES

1.6 Financial instruments (continued)

on specified dates that are solely payments of principal and interest are classified at fair value through profit or loss (FVTPL). Where the CCF test was not met the objective (hold to sell/hold to collect/both) of the entity's business model was considered to determine the classification of financial assets. The entity may reclassify assets when and only when its business model for managing those assets has changed.

Recognition and measurement

Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets carried at fair value through profit or loss where the transaction costs are expensed.

For financial assets measured at amortised cost, interest income is calculated using effective interest rate method and included in finance income. Any gain/losses on derecognition is recognised directly in profit or loss. Impairment losses are presented separately.

For financial assets measured at fair value, gains and losses are recognised in profit or loss in the period in which it arises and presented net with other gains and losses. Interest income is calculated using effective interest rate method and included in finance income.

Expected credit losses

The entity assesses on a forward looking basis the expected credit losses to reflect changes in credit risk associated with its financial assets carried at amortised cost.

Credit ratings are used to determine whether credit risk on an instrument has significantly increased since initial recognition. Where there has been no significant increase and the instrument remains of investment grade quality, no credit risk impairment gain or loss is made.

Financial Liabilities
Financial liabilities are classified as follows:

- Amortised cost
- Mandatorily at fair value through profit or loss
- Designated at fair value through profit or loss

Recognition and measurement

Financial liabilities classified and subsequently measured at amortised cost are loans and bonds issued for raising capital to fund the national road networks and related operating expenditure and trade and other payables.

Financial liabilities mandatorily classified and subsequently measured at fair value through profit or loss are capital market bonds held for trading in the market-making portfolio.

Financial liabilities designated at fair value through profit or loss are capital market bonds, previously held for market-making and subsequently held to maturity and used for to fund the national road networks and related operating expenditure.

Financial liabilities are initially recognised at fair value and subsequently in accordance with their above classification or measurement categories.

1.6 Financial instruments (continued)

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the entity are presented below:

Capped insurance receivable at amortised cost

Classification

The capped insurance receivable (note 9) is classified as a financial asset subsequently measured at amortised cost.

It has been classified as amortised cost because the contractual terms of this receivable give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding and the entity's business model is to collect the contractual cash flows on this receivable.

Recognition and measurement

The receivable is recognised when the entity becomes a party to the contractual provisions of the receivable. The receivable is measured, at initial recognition, at fair value plus transaction costs, if any.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Application of the effective interest method

Interest income is calculated using the effective interest method, and is included in profit or loss in finance income (note 29).

Expected credit losses

The entity recognises a loss allowance for expected credit losses on all other receivables measured at amortised cost. The amount of expected credit losses is assessed at each reporting date to reflect changes in credit risk since initial recognition of the respective receivables.

For the capped insurance deposits (measured at amortised cost) management has assessed the risk of credit losses as low because the deposit is held with institutions that have a national scale credit rating of A1 and above. This asset earns interest on a monthly basis which the debtor has been servicing without fail. Thus the fair value of the asset has been increasing on an annual basis. Consequently, no expected credit loss allowance is made unless there is an indication of impairment.

Trade and other receivables

Classification

Trade receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 11).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the entity's business model is to collect the contractual cash flows on trade and other receivables. Trade receivables are amounts due from customers for services performed in the ordinary course of business of the entity.

1.6 Financial instruments (continued)

Recognition and measurement

Trade and other receivables are recognised when the entity becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, as per the revenue policy in line with IFRS 15.

The receivables are expected to be received in the short term (less or equal to 12 months) and are therefore classified as current. Thus the carrying amount approximates the fair value.

No finance income (interest) is recognised on trade receivables.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Expected credit losses

The entity measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable. The amount of expected credit losses is updated at each reporting date.

Measurement and recognition of expected credit losses

The entity applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. A loss rate method was opted. With the Loss rate method selected, a provision matrix as a practical expedient to the determination of expected credit losses. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the political influences, GDP and the unemployment rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis using the age analysis. Details of the provision matrix are presented in note 11.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in operating expenses in profit or loss as a movement in credit loss allowance (note 28).

The fair value of trade receivables is considered to be the same as the carrying amount due to the short-term nature of the current trade receivables.

Write off policy

The entity writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterpart is deceased or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

1.6 Financial instruments (continued)

Credit risk

Credit risk is considered together with the expected credit loss assessment. The details of credit risk assessment are included in the trade and other receivables note 11.

Cash and cash equivalents

Cash is cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalents if they have a short maturity of three months or less from the date of acquisition. Financial instruments can only be included if they are in substance cash equivalents.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable within 24 hours' notice with no loss of interest.

Trade and other payables

Classification

Trade and other payables (note 23), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

These amounts represent liabilities for unpaid goods and services provided to the entity before financial year end. These amounts are unsecured and are usually settled within 30 days of receipt of an invoice or recognition. They are therefore presented as current. Thus, its carrying amount approximates its fair value.

Recognition and measurement

They are recognised when the entity becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Their carrying amount is considered to be the fair value at reporting date due to the short-term nature of the current trade and other payables.

Trade and other payables expose the entity to liquidity risk and possibly to interest rate risk. Refer to note 39 for details of risk exposure and management thereof.

Third-party funding

Third-party funds are monies received in advance from other entities which relate to projects managed by SANRAL including assets owned by the other entities. They contribute their proportionate share to the projects. SANRAL's obligation is to deliver completed project assets. The funds received are included and accounted for in cash and cash equivalent. Third-party funding is measured at amortised cost and its carrying amount approximates its fair value.

ACCOUNTING POLICIES

1.6 Financial instruments (continued)

The project expenses are capitalised. The agreements are silent on interest earned on the funds held in short-term facilities, thus interest earned is for SANRAL and is included in profit or loss.

Financial liabilities at fair value through profit or loss

Classification

Financial liabilities which are held for trading are classified as financial liabilities mandatorily at fair value through profit or loss.

The entity has designated certain financial liabilities as at fair value through profit or loss. The reason for the designation is to reduce or significantly eliminate an accounting mismatch which would occur if the instruments were not classified as such; or if the instrument forms part of a group of financial instruments which are managed and evaluated on a fair value basis. Refer to note 10 and note 17 for details.

Recognition and measurement

Financial liabilities at fair value through profit or loss are recognised when the entity becomes a party to the contractual provisions of the instrument. They are measured, at initial recognition and subsequently, at fair value. Transaction costs are recognised in profit or loss.

Fair value gains or losses recognised on investments at fair value through profit or loss are included in other operating gains (losses) (note 27).

For financial liabilities designated at fair value through profit or loss, the portion of fair value adjustments which are attributable to changes in the entity's own credit risk, are recognised in profit or loss. This treatment arises as it would otherwise create or enlarge an accounting mismatch in profit or loss thus, the effects of the credit risk for both market making financial assets and liabilities (held-for-trading) are recognised in profit or loss rather that in other comprehensive income.

Interest paid on financial liabilities at fair value through profit or loss is included as finance costs (note 29).

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the financial liabilities using the effective interest method. Interest is recognised as finance costs in the profit or loss in the period incurred. Refer to note 16.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The cash flows (proceeds and repayments) of financial assets and liabilities are shown as net where it is impracticable to disclose separately due to the placement and withdrawal of large deposits to and from other financial institutions.

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the entity continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

Financial liabilities

The entity derecognises financial liabilities when, and only when, the entity obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1.7 Tax

Tax expenses

SANRAL was exempted from income tax in the Government Gazette of 22 December 2003, in terms of S10(1)(t)(iii) of the Income Tax Act of 1962. This exemption was backdated to the inception of the company.

1.8 Leases

The entity assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Entity as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date on a present value basis, for all lease agreements for which the entity is a lessee, except for short-term leases of 12 months or less and leases of low value assets. For short-term leases of 12 months or less, or leases of low value assets, the entity recognises the lease payments as an operating expense (note 28) on a straight-line basis over the lease term. The exclusion of low value and short-term assets from the right-of-use assets is applied on lease by lease basis. Any leasehold improvements are recognised and measured in accordance with IAS 16.

The entity has elected not to separate the non-lease components for all leases and applying a single discount rate to a portfolio of leases with reasonably similar characteristics as practical expedients.

Details of leasing activities and arrangements where the entity is a lessee are presented in note 6 Leases (entity as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the entity's weighted average cost capital as its incremental borrowing rate.

1.8 Leases (continued)

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

- Fixed lease payments, including in-substance fixed payments, less any lease incentives
- Variable lease payments that depend on an index or rate (anniversary escalations embedded), initially measured using the index or rate at the commencement date
- Lease payments in an optional renewal period if the entity is reasonably certain to exercise an extension option
- Known penalties for early termination of a lease, if management is certain that the lease contract will be terminated and the penalty is certainly payable

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 6).

The lease liability is presented within borrowings on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount by interest on the lease liability and by reducing the carrying amount by lease payments made. Interest charged on the lease liability is included as finance costs (note 29).

The entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- There has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- There has been a change in the assessment of whether the entity will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- There has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- There has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.
- A lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

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

Right-of-use assets

Right-of-use assets are presented within property, plant and equipment on the Statement of Financial Position.

The right-of-use assets are initially measured at cost. The cost of right-of-use assets comprise the initial amount of the corresponding lease liability and any lease payments made at or before the commencement date, less any lease incentives received.

The entity has excluded the inclusion of initial direct costs in measurement of rights-of-use assets as a practical expedient. No material cost to dismantle and remove the underlying assets are expected.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation starts at the commencement date of a lease term. Depreciation and impairment loss from the right-of-use assets are recognised in profit or loss.

1.8 Leases (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset thus the rightof- use for kiosks, retail outlets and printers is depreciated over their lease terms.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

Low value leases

As IFRS does not provide a threshold amount for low value assets, SANRAL has decided that leased assets individually valued at less than or equal to R76 000 are treated as low value assets in line with the basis of conclusion to IFRS 16. The exclusion of these assets is not expected to have any significant impact on assets.

Lease term

The lease term excludes extension options in property leases. In determining the lease term, management has considered the uncertainties around the future of e-tolls. At reporting date, management was awaiting the decision on the future model for the e-tolls, thus, it was uncertain whether the entity will renew the lease contracts and management will only enter into short- to medium-term (1-3 years) agreements hence extensions were not included in the lease assets and liabilities. The extension options for equipment were also not included as these can be replaced without significant cost or business interruptions.

Entity as lessor

Leases for which the entity is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Lease classification is made at inception and is only reassessed if there is a lease modification. SANRAL leases out excess land acquired for road reserve and these are accounted for as investment property. The lease are classified as operating leases. refer to note 7.

Operating leases

Lease payments from operating leases are recognised on a straight-line basis over the term of the relevant lease. Operating lease income is included in other operating income (note 26).

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and are expensed over the lease term on the same basis as the lease income.

Modifications made to operating leases are accounted for as a new lease from the effective date of the modification. Any prepaid or accrued lease payments relating to the original lease are treated as part of the lease payments of the new lease.

1.9 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset 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. Due to the nature of land or property sales at SANRAL, the sale is regarded as highly probable and it is likely that the sale will be completed when there is a non-cancelable offer or the transaction has been transferred to an appointed conveyancer.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Investment property held for sale continues to be measured at the fair value model after classification as non-current assets held for sale thus is not assessed for impairment as this is considered in the fair value model.

A non-current asset held for sale is not depreciated (or amortised) while it is classified as held for sale.

1.10 Impairment of non-financial assets

Impairment of toll assets (road construction assets self-funded through toll fees)

At each reporting date, the company reviews the carrying amounts of its toll assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of toll assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment of non-toll assets (state-funded through government grants)

The recoverable amount of non-toll assets is the greater of an asset's fair value less cost to sell and value in use. Non-toll assets are non-cash-generating assets. Non-toll assets do not create cash flows from their use, and a market for non-toll roads does not exist. IFRS does not specifically cover the impairment of non-cash-generating assets, and in such cases allows other sources such as pronouncements of other standard setting bodies to be considered. The determination of the carrying amount of non-cash-generating assets are discussed in International Public Sector Accounting Standard 21 (IPSAS 21). In accordance with IPSAS 21 value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using depreciated replacement cost. The company measures its non-toll assets (road network, structures and land) on the revaluation model, based on depreciated replacement cost. Therefore the company's valuation already takes any impairment effect into consideration, and no further specific impairment test is performed on non-toll assets. The remaining assets (equipment, vehicles, furniture, buildings and assets under construction) are measured on the cost model.

Impairment loss and reversal

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its long-term recoverable amount. Impairment losses are recognised in profit or loss.

1.10 Impairment of non-financial assets (continued)

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Revalued assets

Impairment loss on revalued assets is recognised as a decrease in the revaluation reserve in other comprehensive income. A reversal of impairment loss is recognised as an increase in the revaluation reserve in other comprehensive income, limited to the assets' revalued amount.

1.11 Share capital and reserves

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Currently the company has normal issued share capital and share premium accounted for as equity instruments. Directly attributable costs with issuing of equity instruments are deducted against equity. All the shares are paid up. The shares are owned by the department of Transport represented by Minister of Transport. Capital reserves are derived from increase in revaluation of capital assets (land, road network and structures). These reserves may be used for contingencies or off set major capital losses with approval from the National Treasury.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses, and non-monetary benefits such as medical aid), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance. Currently performance bonus is at the discretion of the Board.

Defined contribution plans

The entity operates a defined contribution plan, the assets of which are held in a separate trustee-administered fund. The provident fund is funded by payments from the entity, taking into account the recommendations of independent qualified actuaries. The entity's contributions to the defined contribution plans are recognised in profit or loss account as an employee benefit expense in the year to which they relate.

The entity has employees who are members of the Government Employees' Pension Fund (GEPF). Contributions to the GEPF are recognised in profit or loss account in the year to which they relate as part of cost of employment. The entity has no legal or constructive obligation to pay further contributions if the GEPF does not hold sufficient assets to pay all employees their benefits relating to employee service in the current and prior periods.

1.12 Employee benefits (continued)

Defined benefit plans

SANRAL recognises the estimated liability on an accrued basis over the working life of the eligible employees. During 2014, SANRAL extended its post-employment medical aid benefits to all its employees. The entitlement is based on the employee remaining in the employment of the organisation for a period of 15 years of uninterrupted service until retirement. For defined benefit plans (post-retirement medical aid) the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to the end of the reporting period where the valuation is performed at an earlier date. Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income. Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In profit or loss, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets. Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions

Provisions are recognised when:

- The entity has a present obligation as a result of a past event.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where the effect of discounting to present values is material, provisions are adjusted to reflect the time value of money, and where appropriate, the risk specific to the liability. The unwinding of such discount is recognised as a finance cost.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

Provision for rehabilitation costs

Provision for rehabilitation costs is based on the contractual agreement signed with the contractors maintaining or constructing the road networks and increased over the life span of the project. Once the project is completed, the provision for rehabilitation costs is reversed as the actual cost has been incurred and recognised appropriately.

1.13 Provisions (continued)

Provision for rehabilitation costs for projects that are capital in nature is capitalised to the respective assets. Rehabilitation costs for projects that are operational in nature are expensed in profit or loss when incurred.

Provision for overload control

Provision for overload control is based on the contractual agreement signed with the concessionaires regarding control of overloading on the road network operated by concessions. SANRAL expects concessionaires to claim amounts due within a year as they rehabilitate the road network. The amount is an estimate and there is uncertainty of the time it will be payable as there are continuous negotiations are taking place. The overload provision is calculated using the overload control software and is evaluated annually at year end. Historical and projected future traffic data and weighted average cost per kilometre is used in the calculation.

1.14 Government grants

The entity receives a significant amount of income from the National Treasury as a government grant. The grant is unconditional and it is for capital and operating expenditure. Government grants are recognised when there is reasonable assurance that:

- The entity will comply with the conditions attaching to them
- The grants will be received

Government grants received to compensate the company for capital expenditure (the cost of an asset) are included in noncurrent liabilities as deferred income and are released to income on a systematic basis in subsequent years over the estimated life of the related assets. Government grants received as compensation for acquisition of land are recognised as income when received, because land is not deferred.

Government grants to compensate the company for expenses incurred are recognised in profit or loss immediately. The unspent portion of a grant is included in non-current liabilities as deferred income.

1.15 Revenue from contracts with customers

Revenue has been disaggregated using existing segments and presentations are regularly reviewed by management and decision makers.

The entity recognises revenue from the following major sources:

- GFIP/e-toll revenue
- Conventional toll plaza revenue
- Non-toll government grant
- GFIP government grant

In recognising revenue from toll transactions the following five steps were applied:

- Identify contract with customers
- Identify the performance obligation in contract
- Determine the transaction price
- Allocate transaction price to performance obligation in contract
- Only recognise revenue when or as the entity satisfies the performance obligation in contract

ACCOUNTING POLICIES

1.15 Revenue from contracts with customers (continued)

Revenue is measured based on the consideration specified in a contract with a customer. The entity recognises revenue when it transfers control of a service to a customer. For critical judgments relating to revenue recognition refer to note 1.2.

When the entity satisfies the performance obligation, the entity recognises the transaction price as revenue. Transaction price is initially the toll tariff per vehicle type as approved by the Minister in a published gazette. Transaction price is adjusted to reflect the amount that the entity expects to be entitled in exchange for goods and services. Transaction price excludes amounts collected on behalf of third-parties, payables to customer, contingent amounts, exempt transactions, discounts and foreign transactions as SANRAL does not expect to receive any income from these transactions. Transaction price includes estimated variable consideration. Accumulated experience or trend analysis is used to estimate and provide for the discounts using the expected value method. Thus revenue that relates to variable consideration is only recognised to the extent that it is highly probable and that no significant reversals will occur.

Contract liability

Income received in advance (prepayments) is regarded as a contract liability. A contract liability is the obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the entity transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue only when the entity performs its contractual obligation. Revenue received in advance is measured at the amount of consideration received from the customer. Contract liabilities are disclosed in the notes as trade and other payables.

Contract assets

The entity does not have any contract assets. Refer to critical judgments and assumptions in the recognition and measurement of revenue in note 1.2.

1.16 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of the PFMA. Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. Irregular, fruitless and wasteful expenditure is recorded in the year that it was incurred (accrual basis). An investigation should be conducted and if it is found that an official was negligent, income should be recognised in profit or loss with a corresponding debtor. The irregular expenditure and fruitless and wasteful expenditure is removed for the disclosure notes on approval by the Board and National Treasury in accordance with the irregular expenditure and fruitless and wasteful expenditure frameworks issued in 2019 or the latest instruction notes.

1.17 Public private partnerships (PPPs)

PPPs entail private entities taking substantial risks for financing a project's capital and operating costs, designing and building a facility, and managing its operations to specified standards, normally over a significant period of time. In a PPP, the land typically belongs to the public institution, not to the private party and the property, plant and equipment developed in terms of the PPP are thus state property. There are three concessions, N3 Toll Concession RF Pty Ltd (N3TC), N1/N4 Bakwena Platinum Corridor Concessionaire (Bakwena) and N4 Trans African Concessions (TRAC). Under these contracts, each concessionaire is responsible for the design, financing, construction, maintaining and operating its contracted/ specified portion of the road network.

1.17 Public private partnerships (PPPs) (continued)

Concession income

Where concessionaires have the right to charge and collect tolls, the company does not recognise any revenue. In circumstances where the concessionaire is required to pay a fee to the company, this amount is recognised as concession income and included in other income.

Assets and depreciation

Toll concessions give the concessionaire the right to use the toll assets, while the company retains the title and ownership of the assets. Items of property, plant and equipment under concession agreements are recognised and measured in accordance with policies for property, plant and equipment.

Deferred exchange considerations

As the asset base increases (property, plant and equipment), a liability (deferred exchange consideration) is recognised when there are additions to complete/purchased assets and assets under construction (work in progress). This liability is realised to the income statement from the acquisition date until the end of the concession contract date. (The remaining contract period from date acquired) in profit or loss. Where the acquisition date cannot be determined, the assumption is made that the asset was acquired at the beginning of the current financial period.

Expansion works funds

The TRAC concession is required to reserve funds for expansion works on toll roads under concessions. The reserved funds are calculated in accordance with the concession agreement. The balance of the expansion works fund is a receivable (asset) to SANRAL. SANRAL has full control of the funds and decides on the use of the funds. Currently the fund is kept for funding priorities or projects on the TRAC route, determined by SANRAL, which is outside of the concessionaire's responsibility. A separate contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item (fixed assets) and the entity has not changed its intention of taking delivery of the underlying assets per agreement. The recognition of the fund increases the deferred exchange consideration (liability). Interest earned is recognised in profit or loss. The fund is decreased as and when it is utilised on the construction projects.

Guarantees

Concessionaires are required to obtain guarantees in the form of performance bonds in favour of the company, relating to construction work, operation and maintenance activities of the concessionaire.

1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred

1.18 Borrowing costs (continued)

The capitalisation of borrowing costs commences when:

- Expenditures for the asset have occurred.
- Borrowing costs have been incurred.
- Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Other income

Other income includes contributions from other spheres of government and the private sector for managing projects. This includes assets owned by other entities and they contribute their proportionate share to the projects for SANRAL's management.

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease accordance with the applicable standard.

Concession income is recognised on a straight-line basis over the term of the concession contract; as and when the performance obligations are satisfied. Refer to note 1.18 on PPPs.

All other sundry income is adhoc income other than income from contracts with customers. It is recognised at the fair value of the consideration receivable or in accordance with any other applicable standard.

Interest income from non-financial assets is included in other income.

1.20 Finance income and finance costs

Finance income comprises interest earned on funds invested in financial assets measured at amortised cost and those measured at fair value through profit or loss. Finance costs comprise interest expenses on funds borrowed and changes in fair value of financial liabilities.

Finance income and costs are recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity. Finance income and costs are recognised in profit or loss for all interestbearing instruments on an accrual basis using the effective interest method except for market-making financial assets and liabilities.

The coupon interest of bonds included in market-making financial assets and liabilities is included in interest income and expenses respectively. The remaining difference between the interest calculated on amortised cost based on the effective interest and coupon interest is disclosed as part of held-for-trading gains and losses. Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Finance income and costs include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest method basis.

Net changes in fair value adjustments from financial assets at fair value through profit or loss are included in net fair value gains/(losses) presented in profit or loss.

1.21 Segment information

Operational segment

Identification

For management purposes, SANRAL is currently organised into two divisions: toll and non-toll operations. These segments' operating results are regularly reviewed by the executive management and the Board and used to make decisions about resources to be allocated to the segments as well as to assess their performance.

SANRAL considered the following factors during the identification of the reportable segments:

- Nature of the products/services rendered by the segment
- Nature of revenues generated by the segment
- Nature of expenses incurred by the segment
- Nature of the funding used to finance segment activities.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise investments (other than investment properties) and related revenue, loans and borrowings and related expenses, corporate assets (primarily head office) and head office expenses. There are no transactions between the business segments. Segment assets consist primarily of land, buildings, roads and equipment. Segment liabilities comprise deferred income and long-term liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill and is directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Source of segment revenue

The toll operating segment derives its revenue from levying toll fees from toll road users, as well as from concession fees from the concession contracts entered into with the concessionaires of certain national roads in South Africa. Specific grants from government for toll funding are also recognised as revenue, to the extent they have been realised. The balance is deferred.

The non-toll operating segment derives its revenue from government funding in the form of government grants.

Measurement of items reported in segment reporting

The amount of each segment item reported is the measure reported to the chief operating decision-maker for the purposes of making decisions about allocating resources to the segments and assessing their performance.

1.22 Contingent liabilities and assets

Contingent liabilities and assets are not recognised in the statement of financial position and statement of financial performance but rather included in the notes to the financial statements when it is probable that an inflow or outflow of economic benefits will flow to or from the entity.

2. CHANGES IN ACCOUNTING POLICY

The annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year. There were no changes in accounting policies identified in the current period. The new standards and interpretations adopted in the current financial year did not result in changes in accounting policies. Refer to note 3 below.

3. NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations effective in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year. The entity only discloses standards and interpretations that are relevant to its operations.

Presentation of Financial Statements: Disclosure initiative

The amendment clarify and align the definition of material and provide guidance to help improve consistency in the application of that concept whenever it is used in International Financial Reporting Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020. The entity adopted the amendment for the first time in the 2021 annual financial statements. The impact of the amendment is not material.

Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

The amendment clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The entity adopted the amendment for the first time in the 2021 annual financial statements.

The impact of the amendment is not material.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The entity has adopted the amendment for the first time in the 2021 financial statements.

The impact of the amendment is not material.

3.2 Standards and interpretations not yet effective or relevant

Standards and interpretations not yet effective that were published but not applicable to the entity's operations are not disclosed in these annual financial statements as there is no expected impact thus are not relevant. The entity has not elected to early adopt any of the standards listed below. The standards will initially be adopted at the beginning of the new financial year after the effective date. Below are the standards and interpretations that relevant to the entity's operations:

3.New standards and interpretations (continued)

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The effective date of the amendment is for years beginning on or after 01 January 2023.

The impact of the amendment will likely not be material.

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The effective date of the amendment is for years beginning on or after 01 January 2022.

The impact of the amendment will likely not be material.

Annual Improvements to IFRS Standards 2018–2020

The pronouncement contains amendments to four IFRS standards as result of the IASB's annual improvements project.

IFRS 1 – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRS's. This standard is not relevant to the entity's operations.

IFRS 9 – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This standard is not relevant to the entity's operations.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The impact of the amendment will likely not be material.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendment to the standard is regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

The impact of the amendment will likely not be material.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. New standards and interpretations (continued)

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.

The amendments are effective for annual periods beginning on or after 1 January 2021.

The impact of the amendment will likely not be material.

COVID-19-Related Rent Concessions (Amendment to IFRS 16)

The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

The impact of the amendment will likely not be material.

4. PROPERTY, PLANT AND EQUIPMENT UNDER CONCESSION

Reconciliation of property, plant and equipment under concession - 31 March 2021

	2021			2010		
	Cost / Valuation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated depreciation R'000	Carrying value R'000
Buildings	971 953	(232 943)	739 010	970 632	(213 562)	757 070
Road structures	11 276 879	(1 496 412)	9 780 467	10 331 094	(1 414 247)	8 916 847
Equipment	480 875	(193 768)	287 107	454 001	(168 541)	285 460
Property, plant and equipment under construction	2 296 983	-	2 296 983	2 747 196	-	2 747 196
Road network	56 431 882	(11 416 593)	45 015 289	55 634 565	(11 561 796)	44 072 769
Total	**71 458 572**	**(13 339 716)**	**58 118 856**	**70 137 488**	**(13 358 146)**	**56 779 342**

Reconciliation of property, plant and equipment under concession - 31 March 2021

	Opening balance R'000	Additions R'000	Disposals /write-offs R'000	Transfers R'000	Revaluation R'000	Depreciation R'000	Total R'000
Buildings	757 070	-	(315)	1 701	-	(19 446)	739 010
Road structures	8 916 847	11 554	-	-	870 784	(18 718)	9 780 467
Equipment	285 460	17 709	(2 419)	19 128	-	(32 771)	287 107
Property, plant and equipment under construction	2 747 196	1 311 984	-	(1 762 197)	-	-	2 296 983
Road network	44 702 769	152 597	(698)	1 741 368	(432 030)	(518 717)	45 015 289
	56 779 342	**1 493 844**	**(3 432)**	**-**	**438 754**	**(589 652)**	**58 118 856**

Reconciliation of property, plant and equipment under concession - 31 March 2020

	Opening Balance R'000	Additions R'000	Transfers R'000	Revaluations R'000	Depreciation R'000	Total R'000
Buildings	808 762	2 070	(34 398)	-	(19 364)	757 070
Road structures	8 527 249	123 291	21 534	260 999	(16 226)	8 916 847
Equipment	257 335	31 974	23 243	-	(27 092)	285 460
Property, plant and equipment under construction	1 884 364	1 124 715	(261 883)	-	-	2 747 196
Road network	37 950 826	100 873	251 504	6 195 260	(425 694)	44 072 769
	49 428 536	**1 382 923**	**-**	**6 456 259**	**(488 376)**	**56 779 342**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. Property, plant and equipment under concession (continued)

Pledged as security

There is no property, plant and equipment under concession pledged as security for liabilities and no title restrictions exist on the property, plant and equipment under concession.

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

Methods and assumptions used in determining fair values of road network and structures

Road network and structures are valued at their depreciated replacement cost based on the estimated present cost of reconstructing an existing asset by the most appropriate current method of construction, reduced by factors for the age and condition of the asset. The estimated present material unit costs are assumed to be uniform across the country. The material unit rates were determined using a bottom-up approach from the basic principles by an independent valuer with more than 52 years of experience and specialising in contract price estimations for the construction industry.

The depreciated replacement cost methodology, where replacement cost is based on that of modern equivalent asset, as utilised by SANRAL, is in direct alignment with the recommendations contained in the International Infrastructure Management Manual (IIMM) for specialised assets which are rarely, if ever, sold on the open market. This manual is used internationally in Australia, New Zealand, United Kingdom, Canada, South Africa and other countries. The replacement cost is calculated using unit rates obtained from the independent valuer.

The depreciation of the asset is then calculated using straight-line depreciation for the roadbed portion and condition-based depreciation for the pavement layers and structures. Pavement condition data is collected using survey vehicles equipped with lasers and 2D/3D cameras enabling the determination of various pavement condition indicators for each 10m of the road network on a two-year basis (subject to construction activities on the network). The bridges are inspected by certified independent inspectors on a five-year basis. The last full inspection was done in 2017 financial year.

The actual condition is then used to determine the depreciation rate that should be applied to the pavement layers for each 1km of road and to the road structures.

Factors impacting on the value of SANRAL roads:

a. Percentage network change: In 1998, SANRAL had just less than 7 000km of roads in its asset portfolio. The incorporation of roads from provinces has increased this over the period, bringing the total to 22 253km at March 2021. This expansion has had an impact on the value of assets.
b. Percentage CPA change: In determining replacement cost, the cost of construction is driven by various input costs such as the cost of bitumen (crude oil), diesel for construction plant operations, cement, steel and aggregate. Stats SA publishes the Construction Price Adjustment (CPA) factor, which all construction contracts are linked to, on a monthly basis.
c. Percentage good condition: Any reseal, overlay, or strengthening work performed on the assets impacts on the condition of the asset, the remaining life of the asset and thus the condition-based depreciation of the asset.
d. Percentage with > 5000 vehicles per day: The volume and composition of traffic (light/heavy vehicles) which a road carries determine the standard to which the road must be built or maintained. This means that a road carrying 200 000 vehicles a day, will require additional lanes per direction and more pavement layers using higher quality materials than a road carrying less than 500 vehicles a day. This impacts on the replacement cost of the 1km section of road.
e. The topography: The flat, rolling or mountainous nature of the area has an impact on the size and extent of cuttings and fills and thus on the replacement cost of the 1km section of road.
f. The climate: An arid, moderate or wet climate has a variable impact on the number of pavement layers, the quality of the material within layers; thus replacement cost of the 1km section of road.
g. Similarly any cross sectional changes (paved shoulders, additional lanes or climbing lanes) will increase the replacement cost of the 1km section of road.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

4. Property, plant and equipment under concession (continued)

Factors impacting on the value of SANRAL roads

All the above factors and associated changes are considered within the SANRAL Integrated Transportation Information System (ITIS) Asset Value Calculation procedure that is performed for each 1km section of road and structure on an annual basis.

Management reviewed the valuations of the road network and structures at 31 March 2021 based on the decrease or increase in material unit rates, the unique nature of the assets and detailed data on conditions of the roads and structures required of the road network, structures and material unit costs. SANRAL performed the revaluation on the road network and structures using technical information supplied by industry experts. For a detailed valuation information refer to note 40 on fair value analysis.

The carrying amounts of property, plant and equipment under concession, in R'000s, if all accounted for under the cost model, would have been:

	2021	2020
Road structures	747 960	755 124
Road network	7 185 547	5 810 999
	7 933 507	**6 566 123**

5. PROPERTY, PLANT AND EQUIPMENT

	2021			2020		
	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000	Cost or revaluation R'000	Accumulated depreciation R'000	Carrying value R'000
Land	21 760 200	-	21 760 200	21 108 346	-	21 108 346
Buildings	2 327 840	(451 676)	1 876 164	2 327 770	(409 178)	1 918 592
Equipment, vehicles and furniture	2 879 334	(1 196 123)	1 683 211	2 907 211	(1 021 066)	1 886 145
Road network	400 773 660	(133 119 825)	267 653 835	398 433 959	(129 407 132)	269 026 827
Property, plant and equipment under construction	8 646 665	-	8 646 665	10 120 058	-	10 120 058
Road structures	101 285 716	(14 744 637)	86 541 079	91 000 685	(13 489 604)	77 511 081
Leased assets Right-of-use assets	2 010	(315)	1 695	11 808	(4 836)	6 972
Total	**537 675 425**	**(149 512 576)**	**388 162 849**	**525 909 837**	**(144 331 816)**	**381 578 021**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 31 March 2021

	Opening balance R'000	Additions/ reclassified R'000	Disposals/ write-offs R'000	Transfers R'000	Revaluations R'000	Borrowing costs capitalised R'000	Depreciation R'000	Impairment R'000	Impairment reversal R'000	Total R'000
Land	21 108 346	5 115	-	-	646 739	-	-	-	-	21 760 200
Buildings	1 918 592	73	-	(3)	-	-	(46 244)	(12 943)	16 689	1 876 164
Equipment, vehicles and furniture	1 886 145	2 354	(14 543)	-	-	-	(190 139)	(2 408)	1 802	1 683 211
Road network	269 026 827	-	-	3 396 839	(1 630 234)	37 204	(3 176 801)	-	-	267 653 835
Property, plant and equipment under construction	10 120 058	2 382 050	-	(3 809 984)	-	(45 459)	-	-	-	8 646 665
Road structures	77 511 081	-	-	413 148	8 815 672	8 255	(207 077)	-	-	86 541 079
Right-of-use assets	6 972	-	(16)	-	-	-	(5 261)	-	-	1 695
	381 578 021	**2 389 592**	**(14 559)**	**-**	**7 832 177**	**-**	**(3 625 522)**	**(15 351)**	**18 491**	**388 162 849**

Reconciliation of property, plant and equipment - 31 March 2020

	Opening balance R'000	Additions/ reclassified R'000	Additiona write-offs R'000	Disposals/ through IFRS adoption R'000	Transfers R'000	Revaluations R'000	Borrowing costs capitalised R'000	Depreciation R'000	Impairment loss	Total R'000
Land	21 735 605	49 498	-	(87)	-	(676 670)	-	-	-	21 108 346
Buildings	1 963 648	3 034	-	-	6 763	-	-	(45 387)	(9 466)	1 918 592
Equipment, vehicles and furniture	914 617	6 812	-	(2 883)	1 145 137	-	-	(176 803)	(735)	1 886 145
Road network	239 004 723	-	-	-	7 537 388	25 314 198	131 814	(2 961 296)	-	269 026 827
Property, plant and equipment under construction	16 272 315	3 858 376	-	-	(9 843 930)	-	(166 703)	-	-	10 120 058
Road structures	71 191 462	-	-	-	1 154 642	5 318 803	34 889	(188 715)	-	77 511 081
Right-of-use assets	-	-	11 808	-	-	-	-	(4 836)	-	6 972
	351 082 370	**3 917 720**	**11 808**	**(2 970)**	**-**	**29 956 331**	**-**	**(3 377 037)**	**(10 201)**	**381 578 021**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

5. Property, plant and equipment (continued)

Property, plant and equipment encumbered as security

Refer to note 35 for details on the contractual commitments for the acquisition of property, plant and equipment.

None of the entity's property, plant and equipment is pledged as security for any liabilities and there are no title restrictions on the property, plant and equipment.

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

Changes in estimates

The entity reassesses the depreciation methods, useful lives and residual values of PPE at the end of financial year in line with the accounting policy and IAS 16 Property, plant and equipment. These assessments were based on historical analysis, benchmarking and the latest available and reliable information. Based on the assessment, the useful lives of some buildings, equipment and software have been revised. The impact on the carrying amounts and depreciation was immaterial for both the current and future years therefore no further disclosure notes are considered necessary.

Borrowing costs capitalised

	2021 R '000	2020 R '000
Borrowing costs capitalised to complete assets	45 459	166 703
Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation	9,19 %	9,29 %

The carrying amount of property, plant and equipment, if all accounted for under the cost model, would have been:

	2021 R '000	2020 R '000
Land	1 212 536	1 207 421
Road network	58 740 033	58 482 791
Road structures	9 346 363	9 132 037
	69 298 932	**68 822 249**

Net carrying amounts of leased assets

	2021 R '000	2020 R '000
PPE subject to operating lease arrangements	1 695	6 972

Revaluations

The entity's land, road structures and road network are stated at revalued amounts, being the fair value at the date of valuation, less any subsequent accumulated depreciation and accumulated impairment losses. The asset valuation calculations are performed annually at year end using the Integrated Transportation Information System (ITIS). ITIS is an internal system, therefore the revaluations are calculated internally and reviewed by the executive of engineering services. The engineering executive has 24 years of experience post professional engineering registration with Engineering Council of South Africa (ECSA) and South African Council for the Project and Construction Management Professions (SACPCMP). He is also a member of The South African Institution of Civil Engineering (SAICE).

Refer to note 4 for specific details regarding the valuation of the land, road network and structures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

5. Property, plant and equipment (continued)

Impairment

In the 2020 financial year the N3 Marianhill toll route was impaired due to a negative loans supported by revenue (LSR) because of the low traffic volumes on the toll route. The recoverable amount of a cash generating unit, N3 Marianhill toll plaza, was less than the carrying amount. The decrease in the recoverable amount related to cash flow predictions that decreased due to estimated increase in maintenance costs in the future. This resulted in impairment of the cash generating unit. N4 Magalies cash generating unit was also impaired in the past. In the current year, the N4 Magalies and N3 Marianhill toll plazas (impaired in prior years) have a positive LSR as at 31 March 2021. This resulted in a reversal of the impairment loss previously recognised.

As at 31 March 2021, the LSR for the toll assets remained positive for all the toll routes except for the N2 South. This was mainly due to the reduction in traffic volumes which highlights the impact that the COVID-19 lock down has had on travel patterns on the toll routes. The N2 South toll route was impaired due to the negative LSR because of the low traffic volumes on the toll route. An impairment expense was recognised. There are no other impairment indicators identified that could impact the abovementioned assets.

An impairment assessment was performed and there was no indication of impairment on property, plant and equipment under construction. Property, plant and equipment under construction relates to capital expenditure on roads such as strengthening, improvements, new roads building and highway monitoring equipment and other items of PPE.

Revaluation of land, road network and structures

The land component of the road reserve was valued in terms of the depreciated replacement cost. The replacement cost of land is determined based on recent selling prices of vacant land with comparable location and, where applicable, adjusted in respect of engineering services' status and development rights on the road reserves.

Road network and structures are valued at depreciated replacement cost based on the estimated present cost of constructing existing assets by the most appropriate current method of construction, reduced by factors for the age and condition of the asset. The estimated present material unit costs are assumed to be uniform across the country. The depreciated replacement cost methodology, where replacement cost is based on that of a modern equivalent asset, as utilised by SANRAL, is in direct alignment with the recommendations contained within International Infrastructure Management Manual (IIMM) for specialised assets which are rarely, if ever, sold on the open market. This manual is used internationally in Australia, New Zealand, United Kingdom, Canada, South Africa, and other countries.

The depreciation of the asset is then calculated using straight-line depreciation for the roadbed portion and condition-based depreciation for the pavement layers and structures. Pavement condition data is collected using survey vehicles equipped with lasers and 2D/3D cameras enabling the determination of various pavement condition indicators for each 10m of the road network on a two-year basis. The bridges are inspected by certified independent inspectors on a five-year basis. The actual condition is then used to determine the depreciation rate that should be applied to the pavement layers for each 1km of road and to the structures. For factors impacting on the valuation of SANRAL's road network and structures refer to assessment and assumptions on note 4.

For a detailed valuation information refer to note 40 on fair value analysis.

Refer to note 6 for details of right-of-use-assets which have been included in property, plant and equipment.

Land identification process

In terms of the identification process, which was initiated on 1 April 1998, SANRAL had 35 630 (31 March 2020: 34 124) properties falling within road reserves and 2 049 confirmed investment properties which fall outside of the road reserve. For investment property values refer to note 7.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

6. LEASES (COMPANY AS LESSEE)

Leasing activities

The entity leases small customer services outlets at various shopping centres in the Gauteng province. Rental agreements are made for fixed terms ranging from 12 months to three years but may have extension/renewal options at the sole *5. Property, plant and equipment (continued)*

discretion of the lessee. These lease agreements contain similar terms and conditions. The entity did not separate lease and non-lease components but accounts for them as a single lease component.

The lease agreements over the right of use assets do not impose any covenants other than security deposit or interest in the leased assets held by the lessor. The leased assets shall not be used as security for borrowing purposes.

Details pertaining to leasing arrangements where the entity is lessee are presented below:

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets recognised in property, plant and equipment relate to the following line items:

	2021 R '000	2020 R '000
Buildings (kiosk/customer services outlets)	678	4 334
Land	338	1 760
Office Equipment (Printers)	679	878
	1 695	**6 972**

Amounts recognised in the profit or loss

The finance costs relates to the interest portion on the lease payments (note 29).

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 28).

	2021 R '000	2020 R '000
Finance costs on lease liability	362	811
Depreciation on buildings (kiosk/customer services outlets)	3 641	4 721
Depreciation on right of use of property	1 421	-
Depreciation on office equipment (Printers)	199	116
Short-term lease payments (excluded in right-of-use assets)	8 569	6 744
Low value assets lease payments (excluded in right-of-use assets)	308	180
	14 500	**12 572**

The total cash flow paid on all operating leases for the year was R13.638m.

The impact of COVID-19 to these operating leases is regarded as immaterial to the operations of SANRAL.

Other disclosures

At 31 March 2021, the entity was committed to R26.959m for short term and low value leases ending before 31 March 2022.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

6. Leases (company as lessee) (continued)

Right-of-use assets held at revalued amounts

Refer to note 5 Property, plant and equipment for details of revaluations to right-of-use assets. The entity has land / property leases recognised as right-of-use assets. Their carrying amounts approximate their fair values and is immaterial for it to be presented separately. Even though land is not depreciated, the right of use recognised as assets is amortised over the lease term. The lease term is regarded as short term as the accounting useful life is generally indefinite, thus these lease term on land properties does not represent a substantive portion of the indefinite useful life on land.

Lease liabilities

Lease liabilities have been included in the financial liabilities at amortised cost line item on the statement of financial position. Refer to note 16 Financial liabilities at amortised cost.

The maturity analysis of lease liabilities is as follows:

	2021 R '000	2020 R '000
Within one year	1 252	4 772
Two to five years	890	2 158
	2 142	6 930
Less finance charges component	(215)	(580)
	1 927	**6 350**
Non-current liabilities	804	6 350
Current liabilities	1 123	-
	1 927	**6 350**

7. INVESTMENT PROPERTY

	2021		2020	
	Cost / Valuation R'000	Carrying value R'000	Cost / Valuation R'000	Carrying value R'000
Investment property	1 741 728	1 74 1 728	1 788 477	1 788 477

Reconciliation of investment property - 31 March 2021

	Opening balance R'000	Net fair value adjustments R'000	Total R'000
Investment property	1 788 477	(46 749)	1 741 728

Reconciliation of investment property - 31 March 2020

	Opening balance R'000	Disposals R'000	Classified as held for sale from prior year R'000	Held for sale property reclassified R'000	Fair value adjustments R'000	Total R'000
Investment property	1 776 215	(1 429)	(9 295)	10 833	12 153	1 788 477

Details of property	2021 R '000	2020 R '000
Investment property		
Improved properties	465 869	688 317
Vacant properties	1 275 859	1 100 160
	1 741 728	**1 788 477**

Leasing arrangements

The entity has investment properties which is surplus land outside road reserve that is not owner occupied. The properties are leased to tenants under operating leases with rentals payable monthly. Lease payments are subject to agreed escalations annually. The escalations depend on index or market rates. Few of the lease contracts have variable payment terms linked to sales performance e.g. filling stations.

No investment property is pledged as security for liabilities of the entity.

Registers with details of land and buildings are available for inspection by the shareholder or its duly authorised representatives at the registered office of the entity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

7. Investment property (continued)

Details of valuation

The investment properties are reported at fair value. Valuations were done by an independent valuer, Massel Property Valuers, at year end. The individual valuers holds recognised and relevant professional qualification, affiliated to the council for property valuers and have adequate experience in the industry and type of the investment property being valued. The valuation of investment property is done on an annually at year end. The fair value of investment property was determined using the widely accepted "comparable sales method", taking into consideration the size, shape, accessibility and existing rights of the property.

No investment property was reclassified to owner-occupied properties in the current reporting period. For investment property where there was a lack of comparable market data, the valuation was based on across the fence (strip) valuation. The properties are assumed to have value that is consistent with the value of a typical adjacent/adjoining piece of land as if vacant, without modification of shape, size and access.

Expectations about future residual values are reflected in the fair value of the properties.

Amounts recognised in profit and loss for the year

	2021 R '000	2020 R '000
Rental income from investment property	48 304	49 984
Direct operating expenses from rental generating property	(1 845)	(2 141)
Direct operating expenses from non-rental generating property	(12 769)	(9 008)
Fair value adjustment recognised in profit/(loss)	(47 095)	14 174
	(13 405)	**53 009**

The minimum lease payments receivable from investment property are as follows:

	2021 R '000	2020 R '000
Rental income receivable within one year	13 595	15 400
Rental income receivable within two - five years	19 718	22 494
Rental income receivable later than five years	94 785	108 233
	128 098	**146 127**

Of the rental income from investment property listed above, variable lease income that depends on sales or financial performance of the tenant business (other than index/rates) was R13.645m (2020: R17.493m) for the period ended 31 March 2021. These leases are excluded from the minimum lease receivables above.

8. INTANGIBLE ASSETS

	2021			2020		
	Cost / Valuation R'000	Accumulated amortisation R'000	Carrying value R'000	Cost / Valuation R'000	Accumulated amortisation R'000	Carrying value R'000
Computer software	102 154	(54 598)	47 556	217 648	(101 459)	116 189
Wayleave agreements	83 384	(25 128)	58 256	77 659	(24 895)	52 764
Total	**185 538**	**(79 726)**	**105 812**	**295 307**	**(126 354)**	**168 953**

Reconciliation of intangible assets - 31 March 2021

	Opening balance R'000	Additions R'000	Write-offs R'000	Amoritisation R'000	Total R'000
Computer software	116 189	4 687	(55 828)	(17 492)	47 556
Wayleave agreements	52 764	11 191	(3 143)	(2 556)	58 256
	168 953	**15 878**	**(58 971)**	**(20 048)**	**105 812**

Reconciliation of intangible assets - 31 March 2020

	Opening balance R'000	Additions R'000	Amoritisation R'000	Total R'000
Computer software	123 023	9 374	(16 208)	116 189
Wayleave agreements	47 744	8 717	(3 697)	52 764
	170 767	**18 091**	**(19 905)**	**168 953**

All the intangible assets disclosed above are purchased assets. The entity does not have any internally generated intangible assets. The disposal of computer software relates to assets written off mainly due to electronic system upgrades. Included in the carrying amount is R69.11m which relates to value of the wayleaves with indefinite useful lives (not amortised). The useful lives and amortisation methods were reviewed at year end with no material changes to the previous accounting estimates.

Pledged as security

None of the entity's intangible assets are pledged as security for liabilities.

Impairment assessment

An annual assessment was done, however there was no condition that indicates that intangible assets have been impaired.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

9. FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost are presented at amortised cost, which is net of any loss allowance, as follows:

Capped insurance deposit	533 976	477 584
SANRAL has a long-term insurance agreement with Centriq Insurance Company Ltd which is reviewed annually. SANRAL made an upfront deposit, and all claims up to the balance of the deposit are recovered from the funds deposited. The agreement provides for the repayment of the balance of the deposit at the end of the agreement period. These funds earned interest at the three-month JIBAR-based deposit rate of 3.6% (31 March 2020: 6.5%).		
Fixed deposits	1 000 000	2 500 000
The average effective interest rates on fixed deposits is 4.33% (31 March 2020: 7.68%). The deposits had an average maturity of 118 days (31 March 2020: 115 days). These short-term fixed deposits are held to meet financial liabilities nearing maturity.	**1 533 976**	**2 977 584**

Split between non-current and current portions

Non-current assets	533 976	477 584
Current assets	1 000 000	2 500 000
	1 533 976	**2 977 584**

Exposure to credit risk

Financial assets at amortised cost inherently exposes the entity to credit risk, being the risk that the entity will incur financial loss if counterparties fail to make payments as they fall due.

The fixed deposits and capped insurance deposit are held at financial institutions which have a credit rating of A and above. There is no indication of any significant increase in credit risk. Both remain above an investment grade rating. Consequently there is no credit loss adjustment.

Fair value of financial assets

Refer to note 39 Financial instruments and risk management and note 40 Fair value information for the fair value of financial assets at amortised cost.

	2021 R '000	2020 R '000

10. FINANCIAL ASSETS AT FAIR VALUE

Designated at fair value through profit or loss:		
Capital market bonds	791 853	1 492 538
Financial assets held for market-making consist of bonds traded on the fixed interest market of the JSE. These bonds yielded interest rates of between 9.84% and 10.91% as at year end (31 March 2020: 9.05% to 9.70%). Capital market bonds are held to manage liquidity and to reduce the cost of borrowing.		
	791 853	**1 492 538**

The entity has opted, at initial recognition, to irrevocably designate the capital market bonds at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. This is consistent with the prior year classification, presentation and disclosure. These market-making financial assets, together with the market-making liabilities measured at fair value through profit or loss, are managed as a portfolio for performance and risk management purposes. To overcome any mismatch which may occur in the statement of profit or loss, both assets and liabilities have been designated and subsequently measured at fair value through profit or loss. Refer also to note 17.

The entity has not reclassified any financial assets from amortised cost to fair value, or from fair value to amortised cost during the current or prior year.

Refer to note 29 for amounts recognised in profit or loss.

Fair value information

Refer to note 39 Financial instruments and risk management for details of risk exposure and note 40 Fair value information for further details.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

11. TRADE AND OTHER RECEIVABLES

Financial instruments at amortised cost:		
Trade receivables	9 793 532	9 924 823
Bad debts written off	(14 646)	(11 683)
Trade receivables at amortised cost	9 778 886	9 913 140
Sundry and other debtors	272 342	241 622
Other receivables due from related parties	353 403	188 556
Accrued interest	204 743	184 774
Third-party funding	35 640	35 700
Expected credit loss	**(10 172 779)**	**(10 177 524)**
Non-financial instruments:		
Expansion works fund receivable	227 443	354 288
Total trade and other receivables	**699 678**	**740 556**

The gross trade receivables comprises mainly toll debtors. The impairment relates mainly to e-toll debtors which has expected credit losses of R9.646bn (31 March 2020: R9.831bn). This impairment relates to mainly old debt not recovered. All revenue transaction that are not collectable are not recognised thus there are no debtors transactions since the adoption of IFRS 15 except for the key account holders/customers. The reduction of expected credit losses is mainly as a result of recoveries and bad debts recognised in the current year.

Expansion works fund receivable

TRAC has accrued expansion works funds relating to the implementation of the Nelspruit ring road implementation agreement and has reserved such funds on behalf of SANRAL for the expansion of specific capital projects. The remaining expansion works funds will be applied to other design and construction works as and when instructed in writing by the SANRAL. Thus, it will be received through the delivery of fixed assets rather than cash. The receivable reduces when the funds are utilised on projects and a corresponding capital expenditure recognised as asset. Refer to note 41 for detailed information on concession arrangements.

TRAC expansion works fund is not past due therefore it has been excluded from the age analysis above. This amount was assessed for impairment and no indicators of impairment existed at year end.

Split between non-current and current portions

Non-current assets	227 443	354 288
Current assets	472 235	386 268
	699 678	**740 556**

Exposure to credit risk

Trade receivables inherently expose the entity to credit risk, being the risk that the entity will incur financial loss if customers fail to make payments as they fall due.

Trade receivables arise largely from e-toll debtors in the Gauteng Province. The customer base for use of e-toll roads is large resulting in a significant credit risk from these trade receivables. Management assesses and monitors the credit risk annually.

	2021 R '000	2020 R '000

Trade and other receivables (continued)

The expected credit loss is assessed and recognised for all trade and other receivables in accordance with IFRS 9 Financial instruments at the end of each reporting period. In addition to the loss allowance, trade and other receivables are net of bad debts which are written off when there is no reasonable expectation of recovery.

The loss allowance provision is determined as follows:

Expected credit loss rate: Toll debtors	Amounts outstanding R'000	Default rate	Expected credit loss R'000
0 - 30 days	114 335	0,29 %	331
31 - 60 days	22 190	16,76 %	3 719
>365 days	9 642 361	100,00 %	9 642 361
	9 778 886		**9 646 411**

The default rates per ageing category above have been determined based on the average 3-year historical collection rates at reporting date. Based on the historical loss rates a forecasting trend was determined and a forecasted loss rate was then applied to the outstanding amounts to obtain the expected loss. Due to the application of IFRS 15 and the adopted revenue probability assessment policy, there are no debtor transactions between 60-365 days. The debt over 365 days are mainly historical debtors prior to the adoption of IFRS 15 in 2019 sitting in the violations processing centre (VPC). This old debt is provided for at 100%. Forward-looking information is expected to have little impact on loss rates.

The debtors in 0-60 days are managed separately and relate mainly to key account holders.The conventional toll road users are included in the current debtors, these relate to time differences in the system allocation of credit/e-tag transactions and there is no expected credit loss on CTROM debtors. A further expected credit loss was only calculated on key account holders' debt. The key account holders' debt was split into two buckets; current and >31 days buckets. The R331 000 expected credit loss on current debtors relates to key account holders with a separate forecasted loss rate of 0.58% while loss rate for +31 is 16.76%. The forecasting is very sensitive to the values of which forecasting is performed and it takes into account the past recoverability and determine the expected loss.

Due to the short nature of the debtors' life cycle, considering forward-looking factors was regarded as irrelevant and would not make any significant difference. For the key account holders' assessment, 95% of recoveries are made within the first month of the transaction month (98% within 60 days). Further, we assessed the existence of a correlation between the loss rates and certain key macro-economic indicators such as GDP, unemployment rates and CPI and no strong relationships between the macro-economic variables (MEVs) and the loss rates for the key account holders was identified. Based on the above reasons, incorporating forward-looking information in the loss rates did not have any material impact.

Even though the issuing of summonses was stopped, as announced to the public on 27 March 2019, and the final decision on the future of e-tolling has not been taken by the cabinet. There has been no significant impact on the overall collection rate of old debt transferred to VPC compared to prior periods, which remains very low. The recoverability rate on historical debt, transferred to violation processing centre, is less than two percent and it is anticipated that due to uncertainties imposed by the government on the future of GFIP and existing debt, the VPC debt is considered irrecoverable. Therefore the default rate was set at 100% which is consistent with prior years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. Trade and other receivables (continued)

Expected credit loss rate: Property debtors

	Amounts outstanding R'000	Default rate	Expected credit loss R'000
0 - 30 days	3 746	15 %	562
31 - 60 days	1 050	15 %	158
61 - 90 days	968	15 %	145
91 - 120 days	1 052	100 %	1 052
>120 days	3 509	100 %	3 509
	10 325		**5 426**

Expected credit loss rate: Sundry debtors

	Amounts outstanding R'000	Default rate	Expected credit loss R'000
0 - 30 days	93 981	9.79%	9 271
31 - 60 days	152 970	100.00 %	152 970
61 - 365 days	13 677	100.00 %	13 677
>365 days	345 024	100.00 %	3 45 024
	605 652		**520 942**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

11. Trade and other receivables (continued)

The loss allowance is determined by grouping trade receivables as follows:

Figures in R'000s	2021 Estimated gross carrying amount at default	2021 Loss allowance (Lifetime expected	2020 Estimated gross carrying amount at default	2020 Loss allowance (Lifetime credit loss)
Toll debtors				
Less than 31 days past due	114 335	(331)	90 602	(8 080)
31 - 60 days past due	22 190	(3 719)	-	-
More than 90 days past due	9 642 361	(9 642 361)	9 822 538	(9 822 538)
	9 778 886	**(9 646 411)**	**9 913 140**	**(9 830 618)**
Property debtors				
Less than 31 days past due	3 746	(562)	211	(48)
31 - 60 days past due	1 050	(158)	204	(81)
61 - 90 days past due	968	(145)	119	(84)
91 - 120 days past due	1 052	(1 052)	81	(81)
More than 120 days past due	3 509	(3 509)	956	(956)
	10 325	**(5 426)**	**1 571**	**(1 250)**
Sundry debtors				
Less than 31 days past due	93 981	(9 271)	28 989	(1 441)
31 - 60 days past due	152 970	(152 970)	2 956	(148)
61 - 90 days past due	-	-	8 795	(440)
91 - 365 days past due	13 677	(13 677)	143 401	(143 401)
More than 365 days past due	345 024	(345 024)	2 00 226	(200 226)
	605 652	**(520 942)**	**384 367**	**(345 656)**
Total	**10 394 863**	**(10 172 779)**	**10 299 078**	**(10 177 524)**

A simplified approach was used to assess the expected credit loss. The default is 90 days as the credit risk increases significantly for debt not collected within 90 days hence it is assumed to be not collectable.

The entity does not adjust the transaction price and debtors' balance for the time value of money (there is no significant financing component) as it does not defer payment terms to a period exceeding 12 months.

Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts therefore no further sensitivity analysis are deemed necessary.

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	2021 R '000	2020 R '000

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of:		
Cash on hand	7	12
Bank balances	25 488	62 152
Short-term deposits and repos	29 314 796	16 471 730
	29 340 291	**16 533 894**

The effective interest rates on bank balances and money market funds were between 2.30% and 3.98% (31 March 2020: 1.88% and 7.51%) and the deposits have an average maturity of 4.2 days (31 March 2020: 9.8 days). Refer to note 39: Financial instruments and risk management for details of risk exposure and note 40: Fair value information for further details.

Term deposits and short-term repos (repurchase agreements) are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition.

Credit quality of cash at bank and short-term deposits, excluding cash on hand

All deposits are held at financial institutions which have a credit rating of A and above. Refer to note 39.

Restricted cash

The cash and cash equivalents disclosed above and in the statement of cash flows include R1.42m (31 March 2020: R1.49m), for tenant deposits, which are held in a trust account by Hornby Smyly Glavovic Trust. These deposits are subject to terms and conditions in lease contracts and are therefore not available for general use by SANRAL. The reduction was due to refunds of the deposit held on tenant vacation.

The cash and cash equivalents disclosed above includes deposits held for guarantees on burrow pits of R31.17m (31 March 2020: R25.76m) which are held by ABSA Bank for the Department of Minerals and Energy. These deposits are subject to terms and conditions in the burrow pit guarantees and are therefore not available for general use by SANRAL.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

13. NON-CURRENT ASSETS HELD FOR SALE

	2021 R '000	2020 R '000
Assets and liabilities		
Non-current assets held for sale		
Investment property	13 687	22 613
Reconciliation		
Opening balance	22 613	34 460
Investment property sold during the year	(8 580)	(12 330)
Additions to investment property held for sale	-	9 296
Net fair value adjustments	(346)	2 019
Reclassified property - no longer held for sale	-	(10 832)
	13 687	**22 613**

These are investment properties held for sale which comprise of excess land initially acquired for future road construction. Its carrying amount will be recovered principally through sale rather than continuing use. These are vacant properties that are not generating any income. The direct costs incurred is of negligible amount. These properties were handed over to the conveyancers for selling and transfer process. It is expected that the sale of these properties will be completed within the next 12 months except for circumstances beyond the control of the entity. Transfer of state owned vacant land in its nature takes a substantial time to conclude, therefore only properties that have been handed over to the conveyancers are recognised as held for sale and classified as current. There were no additional properties identified for sale due to the moratorium in place to support government objectives on land reforms.

Properties no longer held for sale

In 2020 assets that were no longer meeting the IFRS 5 requirements were reclassified as it was no longer probable that the sale will take place after cancellations by purchasers and a moratorium effected by government on all new sales of land owned by the state. There is no further effect caused by this reclassification.

14. SHARE CAPITAL

	2021 R '000	2020 R '000
Authorised		
4 000 ordinary shares of R1 each	4	4
Issued		
4 000 ordinary shares of R1 each	4	4
Share premium (4 000 ordinary shares issued at a premium of R272 760 per share)	1 091 040	1 091 040
	1 091 044	**1 091 044**

These shares are held by the Government of South Africa represented by the Minister of Transport.
The shares are fully paid.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

15. Revaluation reserve and Retained income (continued)

The revaluation reserve relates to the revaluation of the following components of property, plant and equipment:

Land	20 554 039	19 907 299
Road network	332 975 304	325 351 112
	353 529 343	**345 258 411**

Revaluations are done annually at year end. Refer to note 40 for the detailed sensitivity analysis. A breakdown of the revaluation movement for the period affecting the statement of profit or loss and other comprehensive income is reflected below:

Increase/(decrease) in revaluation amount for land	646 740	(676 670)
Increase in revaluation amount for road network and structures	7 624 192	37 089 260
	8 270 932	**36 412 590**
Accumulated loss	(14 468 488)	(14 853 392)

16. FINANCIAL LIABILITIES AT AMORTISED COST

Capital market loans (long term)	39 084 494	37 093 386
Capital market loan (short term)	-	3 788 056
EIB loan (long term)	909 412	949 620
EIB loan (short term)	40 208	36 901

SANRAL has entered into a loan facility agreement with the European Investment Bank (EIB). The loan was drawn in two tranches of R572,784,000 and R573,918,000 respectively during the 2011 financial year. The tranches bear interest at a fixed rate of 8.315% and 9.227% respectively. The loan is repayable over 20 years in semi-annual installments. Repayments are made in South African Rands and commenced in the 2015 financial year. This loan, including interest accrued, is guaranteed by the government under the R31.91bn guarantee.

Promissory notes (current)	1 151 282	1 121 787

SANRAL has issued promissory notes under its R6bn guarantee to meet its short-term financing requirements. The promissory notes, which are repayable on one-year maturity, yield an interest linked to JIBAR, which at the reporting date was between 4.75% to 4.9% (31 March 2020: 7.9% to 8.0%).

Lease liabilities

Lease liabilities	1 927	6 350

Lease liabilities relate to the leasing of customer services retail outlet and printers excluding short term and low value assets. Refer to leasing activities under right-of-use assets in notes 5 and 6.

	41 187 323	**42 996 100**

	2021 R '000	2020 R '000

16. Financial liabilities at amortisied cost (continued)

Split between non-current and current portions		
Non-current liabilities	39 994 710	38 049 356
Current liabilities	1 192 613	4 946 744
	41 187 323	**42 996 100**

Capital market loans

In September 2017 the South African Government issued an updated and reworded the guarantee of R31.91bn for borrowings by SANRAL, of which the payment obligations are limited to a maximum nominal amount of R31.91bn. SANRAL has issued an aggregate nominal of R22.21bn as at 31 March 2021 (31 March 2020: R24.15bn) under a guaranteed Domestic Medium-Term Note (DMTN) programme (HWAY bonds). The redemption amount of capital market loans, including interest accrued, issued under the R31.91bn guarantee was R31.18bn (31 March 2020: R32.76bn). The funds raised through these borrowings may only be used for toll operations.

On 16 November 1999, the South African Government issued guarantees for borrowings (SZ bonds) by SANRAL up to a nominal amount of R6bn. SANRAL has issued bonds with a nominal amount of R5.23bn (31 March 2020: R5.24bn) under this guarantee. The funds raised through these borrowings can only be used for toll operations.

The government also approved an unguaranteed borrowing capacity of up to a nominal amount of R15bn. SANRAL issued bonds with a nominal amount of R7.59bn (31 March 2020: R7.80bn) under the non-guaranteed DMTN programme (NRA bonds). The funds raised through these borrowings may only be used for toll operations.

Refer to note 33 Changes in liabilities arising from financing activities for details of the movement in the financial liabilities during the reporting period and note 39 Financial instruments and financial risk management and note 40 for the fair value of the financial liabilities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

17. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Capital market loan - market making (short term)	1 032 654	1 585 946
Capital market loan (short term)	-	139 965
Capital market loan (long term)	3 716 456	3 033 159
	4 749 110	**4 759 070**

The long-term SANRAL capital market loan was designated as at fair value through profit or loss in prior periods. This option was not revoked with the adoption of IFRS 9 on 1 April 2018. The designation of financial liabilities at fair value through profit or loss (FVTPL) is based on the entity managing the performance of capital market-making financial instruments, both financial assets and financial liabilities, as a portfolio of financial instruments. Changes in the fair value of financial assets and liabilities in this portfolio are subject to the same risk and an accounting mismatch will be eliminated or significantly reduced by the designation to FVTPL and the gains/losses from the financial liabilities are taken to profit or loss. A mismatch would arise if the effects of the credit risk on SANRAL's liabilities at fair value were taken to other comprehensive income and the effects of credit risk on market-making financial assets were taken to profit or loss. Refer to note 10.

The effects of changes in the credit risk of financial liabilities held as capital market loans measured at fair value through profit or loss is calculated in line with IFRS 9 guidance using published benchmark and market rates. The cumulative decrease in the credit risk at 31 March 2021 is R54m. The effects of credit risk for both market making financial assets and liabilities at fair value through profit or loss are recognised in profit or loss to ensure no mismatch effect on profit or loss.

The amounts the entity is contractually required to pay on its financial liabilities measured at fair value through profit or loss are the nominal amounts of the respective bonds. Details are disclosed in note 39.

Split between non-current and current portions

Non-current liabilities	3 716 456	3 033 159
Current liabilities	1 032 654	1 725 911
	4 749 110	**4 759 070**

18. RETIREMENT BENEFITS

Defined contribution plan

The entitlement of these benefits is dependent upon the employee remaining in service until retirement age, completing a minimum service period and is subject to periodic review. SANRAL recognises the estimated liability on an accrued basis over the working life of the eligible employees. During 2014, SANRAL extended its post-retirement medical aid benefits to all its employees. The entitlement is based on the employee remaining in the employment of the organisation for a period of 15 years of uninterrupted service until retirement.

The valuation of the obligation was performed by ZAQ Consulting and Actuaries using the projected unit credit funding method. As at the valuation date, the medical aid liability of the entity was unfunded, thus, no plan assets are recognised therefore the value of the unfunded liability is equal to the accrued liability.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

18. Retirement benefits (continued)

The liability relates to medical aid which is regulated by Medical Schemes Act no. 131 of 1998 as amended. The valuation of this post retirement liability was done in accordance with the actuarial practice note (AP 301). There is no other regulatory framework governing this defined contribution plan. The responsibilities for SANRAL in governance of the this plan are ensure adequate cash flows when the obligation becomes due and post-employment medical aid subsidy policy stays the same.

Post-retirement healthcare benefits

	2021 R '000	2020 R '000
Present value of the defined benefit obligation-wholly unfunded	(52 718)	(49 626)
Movement in liability for obligation		
Accrued liability at beginning of year	49 626	50 891
Benefits paid out	(1 865)	(1 592)
Interest cost	6 087	4 799
Service cost	2 992	4 511
Actuarial gain	(4 122)	(8 983)
	52 718	**49 626**

The main reasons for the actuarial gain were:

a) Changes in financial and economic variables

The yield curve as at 31 March 2021 was used to determine the discount rates and inflation assumptions. These variables differ from the interest rates used in the previous valuation. This resulted in a decrease in the liability.

b) Changes in demographic assumptions

From the data provided it can be noted that more than 85% of members belong to the Discovery medical scheme. Since Discovery did not increase their medical aid contributions from 2020 to 2021, it should also be noted that the subsidy cap on contributions have therefore also not been increased from the previous year. This has led to a decrease in liabilities as the expectation was that medical aid contributions would increase by CPI + 1.5%. This resulted in a decrease of the liability. There was also a significant increase in both in-service members as well as continuation members from the previous valuation to the current which resulted in an increase of the liability.

The net effect of these variables and other minor changes in assumptions was an increase in the liability of R3.092m.

	2021 R '000	2020 R '000
Non-current liabilities	(50 841)	(47 976)
Current liabilities	(1 877)	(1 650)
	(52 718)	**(49 626)**

The split between the current employees and continuation members is R33.523m and R19.195m (31 March 2020: R32.088m and R17.538m) respectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

18. Retirement benefits (continued)

Net expense recognised in profit or loss

	2021 R '000	2020 R '000
Current service cost	2 992	4 511
Interest cost	6 087	4 799
	9 079	**9 310**

Key assumptions used

Assumptions used on last valuation on Wednesday, 31 March 2021.

	2021	2020
Average retirement age	65	65
Members discontinued at retirement	- %	- %
Discount rates used	13,49 %	9,43 %
Healthcare/ medical aid cost inflation	10,66 %	6,93 %

Other assumptions.

Historical information	**2021 R'000**	**2020 R'000**	**2019 R'000**	**2018 R'000**	**2017 R'000**
Accrued liability at year end	52 718	49 626	50 891	49 200	42 724

Sensitivity analysis

The results are based on a number of assumptions. In order to illustrate the sensitivity of the results to certain key assumptions, we set out below how the results would vary if these assumptions changed. These scenarios may also be of use in illustrating the possible effect of policy changes on the liability.

The following tables show the sensitivity results. The accrued liability at valuation date was recalculated to show the effect of:

- A 1% increase and decrease in medical aid inflation/ health care cost
- A 1% increase and decrease in the discount rate
- A 20% decrease in withdrawal rates
- A 20% decrease and increase in the assumed level of mortality.

Sensitivity analysis on the accrued liability

The average retirement age for all active employees was assumed to be 65 years. This assumption implicitly allows for illhealth and early retirements.

Assumption	**Change**	**Interest cost R'000**	**Service cost R'000**	**Accrued liability R'000**
Mortality rate	-20%	8 283	3 375	57 350
	+20%	7 034	2 749	48 900
Medical aid inflation rate	-1%	6 735	2 477	46 941
	+1%	8 658	3 739	59 800
Withdrawal rate	-20%	7 744	3 186	53 668
	+20%	7 466	2 895	51 861
Discount rate	-1%	8 794	3 736	60 754
	+1%	6 634	2 488	46 224

	2021 R '000	2020 R '000

18. Retirement benefits (continued)

Risk to the entity

As at the valuation date, the medical aid liability of the entity was unfunded, that is, no dedicated assets have been set aside to meet this liability. By not setting aside any assets in order to meet the liabilities in the future the entity is exposed to certain risks, such as longevity risk or liquidity risk. The entity has adequate cash reserves on non toll portfolio to mitigate the risk exposed by this plan. The entity is under no obligation to cover any unfunded benefits.

Assuming that the post-employment medical aid subsidy policy stays the same, the present value of the estimated obligation in the next financial year is R61.469m. The contributions and service cost to this defined benefit plan are funded from non toll government grant. There is currently no risk that may adversely affect the future funding arrangements on this plan.

Defined contribution plan

Provident and pension fund

The Alexander Forbes Retirement Fund: South African National Roads Agency Limited Provident Fund (the fund) is a defined contribution plan and is registered in terms of the Pension Funds Act 24 of 1956, as amended. Contributions comprise 20.5% of pensionable emoluments. SANRAL contributes 20.5% of which administration and insurance costs amount to 3.59%. The Fund is administered by Alexander Forbes and 446 of the 447 permanent employees (31 March 2020: 440 of the 441) are currently members of the Fund. One employee is a member of the Government Employees' Pension Fund (GEPF).

Contributions to the GEPF comprise 20.5% of pensionable emoluments of which a member pays 7.5% and SANRAL contributes 13%. Contributions are recognised in profit or loss when incurred.

	2021	2020
Pension costs	51	48
Provident costs	55 376	51 592

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	2021 R '000	2020 R '000

19. DEFERRED INCOME

Deferred income consists of deferred government grants and advances from concession contracts.

SANRAL, as a state-owned entity, receives government grants. These grants relate to the capital and operational expenses on the non-toll national routes. The portion spent on capital expenses is being amortised over the useful lives of the underlying assets. Grants for land, which is not depreciated, are treated as income when received. The unutilised portion of the grant at year end is also deferred until utilise in subsequent years.

SANRAL receives prepayments on concession contracts. These payments are deferred over the life of the concession contract. Refer to note 41 for details of the concession arrangements.

	2021 R '000	2020 R '000
Non-current liabilities	64 606 726	55 087 397
Current liabilities	14 401 040	12 884 156
	79 007 766	**67 971 553**

Concession contracts

N3 toll concession

	2021 R '000	2020 R '000
Non-current		
Balance brought forward	409 485	457 304
Amount transferred to current	(47 719)	(47 719)
Balance at end of period	**361 866**	**409 585**
Current		
Balance brought forward	47 719	47 719
Amount realised in profit or loss	(47 719)	(47 719)
Amount transferred from non-current	47 719	47 719
Balance at end of period	47 719	47 719
Total balance for N3 toll concession	**409 304**	**457 304**

The amount realised in profit or loss is calculated as the total amount received from the N3 concessionaire divided by the remaining concession contractual period. This results in a realisation of R47.719m per annum.

TRAC N4

	2021 R '000	2020 R '000
Non-current		
Balance brought forward	72 476	83 052
Amount transferred to current	(10 576)	(10 576)
	61 900	**72 476**
Current		
Balance brought forward	10 576	10 576
Amount realised in profit or loss	(10 576)	(10 576)
Amount transferred from non-current	10 576	10 576
Balance at end of period	10 576	10 576
Total balance for TRAC N4	**72 476**	**83 052**

	2021 R '000	2020 R '000

19. Deferred Income (continued)

Bakwena concession

Non-current		
Balance brought forward	21 785	21 785

This amount represents a contingency fund in terms of the concession agreement, with its main purpose being to defray expenditure that will need to be incurred to maintain certain infrastructure. Income is recognised when the expenditure is incurred.

Non-toll grant (projects)

Non-current		
Balance brought forward	50 020 853	49 379 931
Capital portion of government grants received	1 432 140	3 020 219
Increase/decrease) as a result of a decrease/increase in asset base	(189 541)	(228 650)
Amount transferred to current	(2 340 188)	(2 150 647)
	48 923 264	**50 020 853**
Current		
Balance brought forward	2 150 647	1 921 997
Increase as a result in increase of asset base	189 541	228 650
Amount realised in profit or loss	(2 340 188)	(2 150 647)
Amount transferred from non-current	2 340 188	2 150 647
	2 340 188	**2 150 647**
Unutilised government grant surplus		
Balance brought forward (non-current)	15 237 915	4 562 701
Amounts deferred/(utilised) (current)	12 002 557	10 675 214
Balance at end of period	27 240 472	15 237 915
Total balance for non-toll government grants	**78 503 924**	**67 409 415**

The unspent grant balance at year end is included in cash and cash equivalents, (refer to note 12). The grant was unspent due to slow progress in project implementations.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

20. PROVISIONS

Reconciliation of provisions - 31 March 2021

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Reversed during the year R'000	Total R'000
Provision for rehabilitation costs	1 623	4 199	(882)	(457)	4 483
Provision for overload control	378 470	2 493	-	-	380 963
	380 093	**6 692**	**(882)**	**(457)**	**385 446**

Reconciliation of provisions - 31 March 2020

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Reversed during the year R'000	Total R'000
Provision for rehabilitation costs	2 742	473	(1 456)	(136)	1 623
Provision for overload control	321 366	57 104	-	-	378 470
	324 108	**57 577**	**(1 456)**	**(136)**	**380 093**

	2021 R '000	2020 R '000
Non-current liabilities	384 890	379 128
Current liabilities	556	965
	385 446	**380 093**

Section 41(1) of the Mineral and Petroleum Resources Development Act of 2002 requires an applicant for a prospecting right, mining right or mining permit to make the prescribed financial provision for the rehabilitation and management of negative environmental impacts.

SANRAL, as a holder of mining permits, is ultimately responsible for the restoration of burrow pits. A provision is therefore raised each year for the obligation to rectify environmental damage caused during construction and maintenance of the national roads through the use of burrow pits.

The contractual rehabilitation costs per project were utilised to determine the most accurate cost of restoring burrow pits to their original condition. This was calculated by engineers and project managers as a reasonable indication of the market-related price of restoration. Rehabilitation of the burrow pits is performed on an ongoing basis throughout the project life, therefore the contractual cost was straight-lined over the remaining period of the project.

Rehabilitation costs pertaining to capital projects were capitalised at year end whereas maintenance projects were expensed immediately.

The provision for overload control relates to claims from concessionaires for damage to pavements as a result of overloading and is evaluated annually at year end. Provision for overload control is based on the contractual agreement signed with the concessionaires regarding control of overloading on the road network operated by concessions. SANRAL expects concessionaires to claim amounts due in a short-term 1-3 years, as they rehabilitate the road network. The amount is an estimate and there is uncertainty of the time it will be payable as there are continuous negotiations are taking place. The overload provision is calculated using the overload control software and is evaluated annually at year end. Historical and projected future traffic data and weighted average cost per kilometre is used in the calculation. The effect of discounting was considered immaterial for separate disclosure purpose.

	2021 R '000	2020 R '000

21. DEFERRED EXCHANGE CONSIDERATION

Opening balance	9 940 997	8 924 387
Increase as a result of increase in the asset base	1 493 844	1 382 923
Increase (decrease) as result of TRAC expansion fund	-	369 923
Exchange consideration realised to pwwrofit or loss	(859 489)	(736 236)
	10 575 352	**9 940 997**

Non-current portion	9 715 862	9 204 761
Current portion	859 489	736 236
	10 575 351	**9 940 997**

The entity does not have a contractual obligation to the concessionaires. It controls the assets, which are subject to the concession agreement. The concessionaires have the right to receive income in return for managing, building and financing the assets for the concession period. The right granted to the concessionaires reflects income (exchange consideration) received in advance of performance.

This is because SANRAL is receiving an inflow of resources, in the form of assets, without having delivered on its portion of the exchange consideration – the provision of access to such assets, which will occur over the remainder of the period of the concession agreement. The liability is realised to profit or loss over the remaining concession contract period. The expected realisation for the following financial years is recognised as a current liability.

22. THIRD-PARTY FUNDING

Balance brought forward	256 528	263 144
Reclassified to debtors in the current year	-	690
Contributions received during the current year	38 299	-
Expenditure incurred during the current year	(595)	(7 306)
Funds withdrawn during the current year	(13 377)	-
	280 855	**256 528**

These are funds received from third parties (SANRAL is the implementing agent) mainly for the development of specific roads that do not form part of the declared national road infrastructure.

This balance is supported by cash held in call accounts (refer to note 12). All interest received on cash balances is capitalised for the benefit of the third party or SANRAL, depending on the specific agreement. The funds are repayable as per the agreement. The effective interest rate on the cash held was 3.6% per annum (31 March 2020: 6.3% per annum).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

23. TRADE AND OTHER PAYABLES

Financial instruments:		
Trade payables	758 514	775 050
Accrued leave pay	21 962	16 203
Accrued interest on financial instruments	767 156	844 298
Non-financial instruments:		
Contract liabilities	146 966	237 616
VAT	2 423 664	2 358 781
	4 118 262	**4 231 948**

24. CONTRACT LIABILITIES

Reconciliation of contract liabilities

Opening balance	237 615	312 556
Utilised during the year	(206 885)	(197 817)
New payments received in advance at year end	116 236	122 876
	146 966	**237 615**

The contract liability amounts disclosed above relate to prepayments made by customers as at reporting date. SANRAL expects to satisfy its performance obligations within 12 months after reporting date. Revenue recognised in the current reporting period from SANRAL's performance obligations satisfied in previous financial years is disclosed under toll income, disaggregated as e-toll/GFIP revenue in note 25.

The changes in the contract liability are as a result of the utilisation of the amounts received in advance as and when SANRAL performs its obligation, that is, when the customer passes through the e-toll gantries. There were no price adjustments or contract modifications affecting the contract liabilities.

Contract liabilities are effected mainly from pre-paid customers using e-tags and registered account holders who top-up their accounts before passing the e-toll gantries.

25. REVENUE

Revenue from contracts with customers		
Toll revenue	3 706 876	4 370 119
Revenue other than from contracts with customers		
Non-toll government grant	6 175 693	6 551 922
GFIP government grant	2 721 793	2 667 939
	8 897 486	**9 219 861**
	12 604 362	**13 589 980**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

25. Revenue (continued)

Disaggregation of revenue from contracts with customers

The entity disaggregates revenue from customers as follows:

	2021 R '000	2020 R '000
Toll revenue		
GFIP/e-toll revenue	453 240	660 320
Conventional toll plaza revenue	3 253 636	3 709 799
	3 706 876	**4 370 119**

Included in e-toll/GFIP revenue above is revenue recognised in the current reporting period from SANRAL's performance obligations satisfied in previous financial years which amounts to R13.88m (2020: R19.50m).

Timing of revenue recognition

	2021 R '000	2020 R '000
At a point in time		
Rendering of services	(3 706 876)	(4 370 119)

Revenue from external customers come from toll fees charged on toll roads. There were no incremental costs (contract assets) and unsatisfied performance obligations relating to contracts with customers (toll revenue). All possible discounts and exemptions were excluded from revenue.

The toll revenue disclosed above is the consideration amount which the entity expects to receive from customers (road users). The entity has determined the amount that is highly probable to meet the requirements of "what the entity expects to receive from customers at the time of recognition" considering the intention and ability of customers. On conventional tolls, all amounts charged per the latest gazette is the transaction price recognised as revenue and tested for credit losses at the end of the reporting period. The probability test applied above does not include the customers' credit risk at this stage as that is considered when testing for impairment in terms of IFRS 9.

Non-toll grant reconciliation

	2021 R '000	2020 R '000
Total government grant received	20 400 264	21 177 286
Less GFIP grant portion (toll)	(3 130 062)	(3 080 578)
Non-toll government grant received	17 270 202	18 096 708
Less capital portion of government grants received	(1 432 140)	(3 020 219)
Less surplus government grants deferred	(12 002 557)	(10 675 214)
Realised portion of previously deferred government grant	2 340 188	2 150 647
	6 175 693	**6 551 922**

The impact of COVID-19 on toll revenue and grant

Grant allocations

In June 2020 the National Treasury approved special adjustments to the budget allocations. These included an overall reduction in the non-toll grant of R1.351bn, R2.530bn for GFIP and a shift of R309m from capital allocations to operational allocations for additional COVID-19 related costs incurred during the lockdown. Delays in commencing and completion of repair and maintenance projects, as result of the impact of COVID-19 lock down restrictions on tendering procedures, had also resulted in a reduction of the grant that should have been allocated to revenue above.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

25. Revenue (continued)

Toll revenue

Based on the traffic forecasting model, the impact of COVID-19 lockdown and travel restrictions during the 2021 financial year had resulted in a decrease in toll revenue by between 15% - 20% across the country. After the relaxation of lockdown restrictions to level 1, between November 2020 and 31 March 2021, the traffic volumes returned to almost pre-COVID-19 (normal) forecasted volumes. The COVID-19 lockdown had a significant impact on toll revenue, with an estimated budgeted loss of R570m excluding GFIP. GFIP was excluded because it was already experiencing significant losses of income before COVID-19, therefore the impact of lock down on GFIP could not be estimated with a high degree of certainty without undue effort and cost. Therefore the loss of income on GFIP is assumed to be caused by other factors rather than the lockdown restrictions.

26. OTHER INCOME

	2021 R '000	2020 R '000
Concession income	96 162	146 758
Interest on staff loans and cashbook interest	5 857	3 137
Other interest	1 524	2 255
Realised portion of concession contract revenue (N3TC)	47 719	47 719
Realised portion of concession contract revenue (TRAC N4)	10 577	10 577
Realised portion of previously deferred exchange consideration from concessions	859 489	736 236
Rental income on investment property	48 304	49 984
Sundry revenue	510 927	74 654
	1 580 559	**1 071 320**

27. OTHER OPERATING GAINS (LOSSES)

	Note	2021 R '000	2020 R '000
Reversal of impairment losses			
Property, plant and equipment	5	18 491	-
Fair value gains (losses)			
Financial assets designated as at fair value through profit or loss		(14 509)	23 117
Financial liabilities designated as at fair value through profit or loss		(256 904)	258 754
		(271 413)	**281 871**
Total other operating gains (losses)		**(252 922)**	**281 871**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

28. OPERATING EXPENSES

Operating expenditure by nature is as follows:

	2021 R '000	2020 R '000
Administration costs	425 845	369 131
Advertising	138 551	318 257
Amortisation	20 048	19 905
Auditors remuneration	24 833	24 981
Bad debts	14 651	11 683
Bank charges	45 579	62 583
Depreciation and impairment loss on property, plant and equipment	3 640 873	3 387 238
Depreciation on concession assets	589 652	488 376
Director and management emoluments	37 375	32 922
Employee costs	436 316	397 900
Expected credit loss adjustment - trade and other receivables	(4 744)	(140 354)
Loss on disposal of assets	82 368	4 521
Property management fee	200 839	291 529
Repairs and maintenance	5 219 685	5 330 212
Technical and computer services	362 470	475 017
	11 234 341	**11 073 901**

The net expected credit loss is made up of additional R179.46m for sundry and property debtors and an adjustment of R184.204m in the impairment of e-toll debtors. All revenue transactions that are not collectable are not recognised thus there are no debtor transactions since the adoption of IFRS 15 except for the key account holders/customers with balances. Refer to note 11. The direct operational cost relating to COVID-19 was R26.92m.

29. NET FINANCE COSTS

	2021 R '000	2020 R '000
Finance income		
Interest income on financial assets held for cash management purposes	1 263 761	1 232 958
Interest income on financial assets at fair value through profit or loss	124 905	72 230
Interest income on financial assets at amortised cost	17 672	29 825
TRAC fund interest income	14 081	143 119
	1 420 419	**1 478 132**
Finance costs		
Interest on financial liabilities measured at amortised cost	(3 197 129)	(3 647 538)
Interest on financial liabilities at fair value through profit or loss	(334 317)	(369 036)
Interest on market-making financial liabilities at fair value through profit or loss	(177 357)	(103 101)
Borrowing costs capitalised	18 965	22 252
Interest expense on lease liabilities and other	(362)	(812)
	(3 690 200)	**(4 098 235)**
Net finance income/(costs)	(2 269 781)	(2 620 103)

The capitalisation rate used to determine the amount of finance costs/borrowing costs to be capitalised is the weighted verage interest rate applicable to the entity's general borrowings during the year. The rate was 9.19% (31 March 2020: 9.29%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

30. CASH RECEIPTS FROM CUSTOMERS

	2021 R '000	2020 R '000
Revenue per statement of comprehensive income	12 604 362	13 589 980
Movement in trade receivables	149 245	995 903
Other income	1 580 559	1 071 320
Deferred exchange consideration realised	(859 489)	(736 236)
Deferred income (unrealised)	9 604 074	8 466 271
	23 078 751	**23 387 238**
Net debt reconciliation		
Cash and cash equivalents	29 340 291	16 533 894
Short-term financial assets	1 791 853	3 992 538
Less current financial liabilities	(2 225 267)	(6 672 655)
Less non-current financial liabilities	(43 711 166)	(41 082 515)
	(14 804 289)	**(27 228 738)**

31. CASH PAID TO SUPPLIERS AND EMPLOYEES

	2021 R '000	2020 R '000
Expenses per statement of comprehensive income	11 234 341	11 073 901
Movement in trade payables	228 795	1 294 929
Depreciation on PPE under concession	(589 652)	(488 376)
Depreciation and impairment loss on property, plant and equipment	(3 640 873)	(3 387 238)
Amortisation	(20 048)	(19 905)
Loss on sale of assets	(82 368)	(4 521)
Net impairment and movement in credit loss allowances	4 744	140 354
Bad debts	(14 651)	(11 683)
Movement in provision for overload control	(2 493)	(57 103)
Movement in retirement benefit asset and liability	(3 092)	1 265
Movement in provision for rehabilitation costs	(2 860)	1 119
	7 111 843	**8 542 742**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. CASH GENERATED FROM OPERATIONS

	2021 R '000	2020 R '000
Profit before taxation	380 782	1 263 341
Adjustments for:		
Depreciation and impairment loss on property, plant and equipment	3 640 873	3 387 238
Depreciation on PPE under concession	589 652	488 376
Amortisation	20 048	19 905
(Profit)/loss on disposal of assets	82 368	4 521
Net impairment and movement in credit loss allowances	(4 744)	(140 354)
Finance income	(1 420 419)	(1 478 132)
Finance costs	3 690 200	4 098 235
Fair value (gains)/losses on financial instruments and investment property	300 017	(296 045)
Movements in retirement benefit assets and liabilities	3 092	(1 265)
Movements in provision for rehabilitation costs	2 860	(1 119)
Bad debts	14 651	11 683
Deferred exchange consideration	(859 489)	(736 236)
Deferred income	9 604 074	8 466 271
Movement in provision for overload control	2 493	57 103
Changes in working capital:		
Trade and other receivables	149 245	995 903
Trade and other payables	(228 795)	(1 294 929)
	15 966 908	**14 844 496**

33. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of liabilities arising from financing activities - 31 March 2021

	Opening balance R'000	Fair value changes R'000	Reclassified R'000	Loan discount changes R'000	Total non-cash movements R'000	Cash flows R'000	Closing balance R'000
Financial liabilities measured at amortised cost	42 996 100	-	-	208 389	208 389	(2 017 166)	41 187 323
Financial liabilities measured at fair value	4 759 070	271 414	-	-	271 414	(281 374)	4 749 110
Third-party funding	256 528	-	(1 339)	-	(1 339)	25 666	280 855
Total liabilities from financing activities	**48 011 698**	**271 414**	**(1 339)**	**208 389**	**478 464**	**(2 272 874)**	**46 217 288**

Reconciliation of liabilities arising from financing activities - 31 March 2020

	Opening balance R'000	Lease liability R'000	Fair value changes R'000	Reclassified R'000	Loan discount changes R'000	Total non-cash movements R'000	Cash flows R'000	Closing balance
Financial liabilities measured at amortised cost	42 903 890	6 350	-	-	333 715	340 065	(247 855)	42 996 100
Financial liabilities measured at fair value	4 547 766	-	(281 871)	-	-	(281 871)	493 175	4 759 070
Third-party funding	263 144	-	-	690	-	690	(7 306)	256 528
Total liabilities from financing activities	**47 714 800**	**6 350**	**(281 871)**	**690**	**333 715**	**58 884**	**238 014**	**48 011 698**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

34. CAPITAL PORTION OF GOVERNMENT GRANT AND DEFERRED INCOME

N3TC contract realised in the statement of comprehensive income	(47 719)	(47 719)
N4 TRAC concession realised in the statement of comprehensive income	(10 576)	(10 577)
Non-toll government grant charged to statement of comprehensive income	(2 340 188)	(2 150 647)
Non-toll government grant unspent	12 002 557	10 675 214
Total income unrealised	9 604 074	8 466 271
Movement in deferred income	(8 171 934)	(5 446 052)
	1 432 140	**3 020 219**

Summary of capital portion of government grant received

Capital portion of government grant - non-toll	1 432 140	3 020 219

35. COMMITMENTS

Property, plant and equipment

Already contracted for but not provided for

• Contracts for capital projects authorised - toll	1 986 483	1 975 209
• Contracts for capital projects authorised - non-toll	16 634 796	9 462 192

The commitments relate to the estimated acquisition of property from construction related projects. The capital expenditure will be financed mainly from government grants, toll income and financial instruments issued to the private sector and is expected to be incurred as follows:

Toll

Within one year	714 691	771 964
Two to five years	1 271 792	1 203 245
	1 986 483	**1 975 209**

Non-toll

Within one year	3 864 619	1 949 727
Two to five years	12 770 177	7 512 465
	16 634 796	**9 462 192**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

36. CONTINGENT LIABILITIES AND ASSETS

36.1 Contingent liabilities

In terms of section 61 of the South African National Roads Agency Limited and National Roads Act, 1998, legal proceedings instituted against the then South African Roads Board with the cause of action arising before the incorporation date of SANRAL must be instituted against the Minister of Transport as respondent. Due to the nature of these claims and the fact that judgments in these cases could be to the detriment of SANRAL, it was agreed (at the time of establishing SANRAL) that, although the actions be instituted against the Minister, SANRAL will bear the costs and be actively involved in defending such action.

Claims against SANRAL due to the Municipality Property Rates Act

Individual municipalities have discretionary powers to levy rates on public service infrastructure (PSI), including national roads, in terms of the Municipal Property Rates Act, No 6 of 2004. Not all municipalities have chosen to exercise this statutory power and some have not yet implemented the Act. The property rates used, as well as the valuation amount of SANRAL's infrastructure, have not been determined by the municipalities. In order to arrive at an estimate of the potential rates liability nationally, actual rates levied by some municipalities were applied to the entire declared national road network, arriving at an estimated figure of R70.22m (31 March 2020: R91.18m).

Maputo development corridor - overload

The concessionaire has claimed that the Mozambican government has not complied with the N4 Maputo Development Concession requirements. This contingent liability for SANRAL is due to the joint and several liability under the concession agreement. The estimated overload damage values are based on the full concession period and are thus a combination of actual historic overload data and projected future overload up to the end of concession period. Although agreed to in principle, the detailed inputs into SANRAL overload software utilised to derive the above values still need to be formally signed off between the parties. The quantification of estimated damage caused by overloaded vehicles is a technical exercise. The estimated value of the claim is at R59.79m (31 March 2020: R103.61m).

Non-adjustments of toll tariffs by the Mozambican government

In terms of the N4/Maputo development corridor contract, the independent engineer shall determine the tariff adjustments within 14 days of being called upon to do so in writing by the concessionaire. This has not been done and has resulted in a revenue shortfall. At year end the estimated value was R19.05m (31 March 2020: R15.80m). In the event that the Mozambican government fails to compensate the concessionaire according to the determined claim amount, the South African government, through SANRAL, will become liable for compensating the concessionaire in terms of the "mutually and severally liable" clauses in the concession agreement.

Udumo Trading Proprietary Limited claim against SANRAL

Udumo Trading constructed pedestrian and cyclist facilities on the N12. SANRAL and Udumo Trading did not agree on the final payment certificate amount due to Udumo Trading therefore Udumo is suing SANRAL for R3.3m and remained unchanged from prior year. SANRAL is still awaiting the outcome of the court case.

Claims against SANRAL by road users

These claims are mainly resulting from road related accidents. The entity has insurance to pay for the public liability claims with an excess of R20 000 per claim. Therefore the amount payable by SANRAL is limited to R20 000 per claim for all claims that have been identified as contingent liabilities. As at year end these amounted to R1,401,660 (31 March 2020: R699 860).

	2021 R '000	2020 R '000

36. Contingent liabilities and assets (continued)

36.2 CONTINGENT ASSETS

Claim against Nyoni Projects Proprietary Limited by SANRAL

Nyoni Projects Proprietary Limited's contract (NRA N.002 270.2012/1) for realignment of the national route 2, section 270 at Umhlali river bridge and at Umvoti river bridge was terminated due to poor performance. In 2020 a claim to the value of R35.395m for damages and resultant costs to SANRAL was issued to liquidators and Trustees of Nyoni Projects Proprietary Limited. As at year end, the amount remained unchanged and there was no progress received from the Trustees and the contractor.

Claims by SANRAL against GIBB Proprietary Limited

The contractor suffered a delay in the execution of the scope of his works as a direct result of the Consulting Engineers' lack of timeous response to provide information as part of their scope of services. SANRAL paid the contractor for the delay damages suffered and it is in turn claiming compensation of R257 198 from the Consulting Engineer.

37. RELATED PARTIES

Relationships

Holding company	Department of Transport
Shareholder with significant influence	The principal shareholder of SANRAL is the Department of Transport and therefore the Minister of Transport has significant influence over SANRAL due to his/her position in National Government. Members of key management Key management personnel are defined as executive and non-executive management of SANRAL. Key management personnel compensation is detailed in note 38.

Related-party relationships exist between SANRAL, its directors, key management personnel and parties within the national sphere of government.

SANRAL is a Schedule 3A public entity in terms of the PFMA. It therefore has a number of related parties, including other state-owned entities, government departments and all other entities within the national sphere of government. SANRAL used the database maintained by National Treasury to identify related parties in line with International Accounting Standards (IAS) 24 (Amended). Transactions with parties identified as related parties were concluded at arm's length. The entity has applied the exemption in IAS 24 for government related entities and within joint control.

Having considered the potential for transactions to be impacted by related-party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions require disclosure as related-party transactions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000
37. Related parties (continued)		
Related party balances		
Period end balances arising from services provided to related parties		
Department of Transport	311 060	148 818
Road Accident Fund	37 618	36 446
Road Traffic Management Corporation	4 725	2 869
Non-executive directors*	-	423
Amounts included in trade receivables (trade payables) regarding related parties		
Total receivables arising from related parties	353 403	188 556
Related party transactions		
Government grants received		
Department of Transport	20 400 264	21 177 224
Other services provided to related parties		
Department of Transport	162 242	39
Road Traffic Management Corporation	1 856	732
Road Accident Fund	1 172	2 051
Non-executive directors*	-	423
Services provided by related parties		
Airports Company of South Africa	(2)	(13)

Directors and related party transactions

All directors and officers of SANRAL have confirmed that they had no interest in any contract of significance with SANRAL which could have resulted in a conflict of interest during the current year.

*This amount, R422 692, relates to an overpayment erroneously made to all non-executive directors in the 2020 financial year. A letter from the Minister was received in May 2020 with instruction to adjust the board fees from April 2019. The amounts in the new letter included VAT while the previous letters were silent on VAT. This resulted in the overpayment of all board members. The amounts were subsequently paid by the board members. For related-party transactions paid to directors please refer to note 38.

Balances and transactions relating to the Department of Transport

For the detailed information relating to the government grant refer to note 19 on deferred income and note 25 on revenue and grants received. The amount of R311m owed by the Department of Transport to SANRAL relates to mainly non-increase of toll tariffs by the department at the Swartruggens toll plaza.

Other balances and transactions

The amount owed by RAF relates to a sale transaction of land between SANRAL and RAF. The sale is not yet complete, therefore the proceeds of sale are held by the trustees even though RAF developed and occupied the property. The amount owed by RTMC relates to a rental agreement with RTMC whereby RTMC rents a portion of land, as a parking lot, on the SANRAL COC premises in Samrand. The amount paid to Airport company of South Africa (ACSA) relates to a dedicated SANRAL parking bay at the OR Tambo International Airport.

38. DIRECTORS' AND PRESCRIBED OFFICER'S EMOLUMENTS

Executive

31 March 2021

	Salary R'000	Performance bonus R'000	Total R'000
Mr S Macozoma (Chief Executive Officer)	4 014	1 449	5 463

31 March 2020

	Salary R'000	Performance bonus R'000	Total R'000
Mr S Macozoma (Chief Executive Officer)	4 033	1 215	5 248

Non-executive

31 March 2021

		Directors' fees R'000	Total R'000
Mr TB Mhambi	(Chairperson)	1 288	1 288
Mr RF Haswell	(Independent)	1 014	1 014
Ms L Madlala	(Independent)	860	860
Mr TP Matosa	(Independent)	1 055	1 055
Mr A Moemi	(Public official)	-	-
Mr P Mohan	(Public official)	-	-
Ms A Halstead	(Public official)	-	-
		4 217	**4 217**

There was a change on the Board in relation to the representative of the Department of Transport. The Director-General, Mr A Moemi replaced Mr P Mohan on 20 July 2020. The representative from National Treasury, Ms A. Halstead, resigned on 30 November 2020. The Minister of Transport appointed an additional independent member, Mr E Makhubela to the Board, to replace Ms Halstead on 13 May 2021. Public servants serving on the Board do not get paid for such services at SANRAL.

31 March 2020

		Directors' fees R'000	Total R'000
Mr TB Mhambi	(Chairperson)	1 744	1 744
Mr TP Matosa	(Independent)	1 175	1 175
Mr RF Haswell	(Independent)	935	935
Ms L Madlala	(Independent)	684	684
Mr A Moemi	(Public official)	-	-
Ms A Halstead	(Public official)	-	-
Mr C Hlabisa	(Public official)	-	-
Mr P Mohan	(Public official)	-	-
Ms N Mpobane	(Independent)	1	1
		4 539	**4 539**

38. Directors' and prescribed officer's emoluments (continued)

Executive members
31 March 2021

	Salary R'000	Performance payments and R'000	Other benefits* R'000	Pension contributions R'000	Total R'000
L Kannemeyer (Engineering Executive)	2 261	839	297	487	3 884
I Mulder (CFO)	2 649	912	146	475	4 182
A Tomes (Acting Business Operations Executives)	1 182	325	32	232	1 771
	6 092	**2 076**	**475**	**1 194**	**9 837**
Regional managers					
DM Nkabinde (Eastern Region)	1 748	530	149	361	2 788
MS Peterson (Southern Region)	2 066	461	75	408	3 010
R Cable (Western Region)	1 791	577	109	362	2 839
P Hlahla (Northern Region)	1 800	478	132	328	2 738
	7 405	**2 046**	**465**	**1 459**	**11 375**
Prescribed officers					
A Mathew (Company secretary)	**1 705**	**557**	**100**	**344**	**2 706**

31 March 2020

	Salary R'000	Performance payments and R'000	Other benefits* R'000	Pension contributions R'000	Total R'000
H Harper (Corporate Services Executive)	763	450	36	157	1 406
L Kannemeyer (Engineering Executive)	2 136	717	217	461	3 531
I Mulder (CFO)	2 504	800	63	448	3 815
A Tomes (Acting Business Operations Executive)**	51	243	-	128	1 022
	6 054	**2 210**	**316**	**1 194**	**9 774**
Regional managers					
DM Nkabinde (Eastern Region)	1 662	472	79	342	2 555
MS Peterson (Southern Region)	1 951	659	12	385	3 007
R Cable (Western Region)	1 692	476	50	342	2 560
P Hlahla (Northern Region)	1 697	465	77	310	2 549
	7 002	**2 072**	**218**	**1 379**	**10 671**

38. Directors' and prescribed officer's emoluments (continued)

Prescribed officers	Salary R'000	Performance payments and R'000	Other benefits* R'000	Pension contributions R'000	Total R'000
A Mathew (Company secretary)	1 506	451	44	304	2 305

* Other benefits comprise travel allowance, insurance and medical benefits.

** Mr A. Tomes was appointed Acting Business Operations Executive from 1 September 2019 and the remuneration displayed only relates to his appointment as the Acting Business Operations Executive.

The regional managers are not executive members of the organisation, however are deemed to be key management personnel with a direct or indirect responsibility for planning and controlling the core activities of the entity.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital risk management

The capital structure of the entity consists of debt, which includes the financial liabilities disclosed in notes 16 and 17, cash and cash equivalents disclosed in note 12, and equity as disclosed in the statement of financial position. Shares are held by the Minister of Transport, and new share issues are authorised by the Minister of Transport. The capital structure and gearing ratio of the entity at the reporting date was as follows:

		2021 R '000	2020 R '000
Financial liabilities at fair value	17	4 749 110	4 759 070
Financial liabilities at amortised cost	16	41 187 323	42 996 100
Total liabilities		**45 936 433**	**47 755 170**
Cash and cash equivalents	12	(29 340 290)	(16 533 894)
Net liabilities		**16 596 143**	**31 221 276**
Equity		340 151 899	331 496 063
Gearing ratio		5 %	11 %

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

39. Financial instruments and risk management (continued)

Financial risk management

Overview

The entity is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk and
- Market risk

The board has overall responsibility for the establishment and oversight of the entity's risk management framework. The Audit and Risk Committee is responsible for developing and monitoring the SANRAL's risk management policies. The committee reports quarterly to the board on its activities.

The entity's risk management policies are established to identify and analyse the risks faced by the entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the entity's activities.

The audit committee oversees how management monitors compliance of the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

Nedbank corporate and investment banking (CIB) was appointed as a debt officer or sponsor to provide guidance and advice with regard to compliance with the debt listing requirements.

Credit risk

Credit risk is the risk of financial loss to the entity if a customer or counterpart to a financial instrument fails to meet its contractual obligations.

The entity is exposed to credit risk on trade and other receivables, lease receivables, cash and cash equivalents and repurchase agreements in publicly traded bonds.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring by Assets and Liability Committee. The exposure to credit risk and the creditworthiness of counterparts are continuously monitored for financial assets other than trade receivables.

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings.

Trade receivables do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses using simplified approach.

39. Financial instruments and risk management (continued)

The maximum exposure to credit risk is presented in the table below:

		2021 R '000	2020 R '000
		Gross carrying amount	Gross carrying amount
Market-making financial assets	10	791 853	1 492 538
Capped insurance deposits	9	533 976	477 584
Trade and other receivables*	11	472 235	386 268
Cash and cash equivalents	12	29 340 291	16 533 894
Fixed deposits	9	1 000 000	2 500 000
		32 138 355	**21 390 284**

A-ratings	**Carrying amount**	**AAA R'000**	**AA+ R'000**	**AA- R'000**
Bank balances	25 488	-	25 488	-
Money-market deposits	19 837 505	-	19 837 505	-
Repurchase agreements	9 477 291	9 418 807	57 479	1 005
Market-making financial assets	791 853	791 853	-	-
Fixed term deposits	1 000 000	-	1 000 000	-
Capped insurance deposit	533 976	-	-	533 976
	31 666 113	**10 210 660**	**20 920 472**	**534 981**

*In the prior year, the amount disclosed included the non-financial instrument which has been corrected this year. This correction does not affect the amount disclosed on the primary financial statements therefore it is not considered as a material prior error. This spilt was included on note 11 in prior year. The effect of the change is that the carrying amount of the non-financial instrument of R354m has been excluded from this disclosure note. This was corrected to ensure that the disclosure note is comparable to the current year disclosure.

The carrying amount of financial assets represents the maximum credit exposure. For the fair values of the financial instruments refer to the fair values analysis note 40. Collateral is held against repurchase investments in the form of government or corporate bonds approved by the board. Repurchase agreements and bond investments are held by counterparts with a minimum credit rating of A.

Determination of any significant increase in credit risk

In line with IFRS 9 paragraph 5.5, credit risk on all financial assets at amortised cost is considered to be insignificant where the counterpart or a financial instrument has an investment grade rating and the rating shows no indication of deterioration since the last reporting date. Financial assets at fair value through profit or loss do not include a loss allowance. The fair value is therefore equal to the gross carrying amount.

Cash and cash equivalents, insurance receivable and repurchase agreements are held in bank deposits, money market funds and issuers which are A-rated and above. Except for the insurance receivable, the financial instruments are held.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

39. Financial instruments and risk management (continued)

to meet operational and financial obligations over the short term of three months or less. The risk of default on these instruments is therefore considered to be low. Consequently no expected credit loss allowance is made.

Liquidity risk

The entity is exposed to liquidity risk, which is the risk that the entity will encounter difficulties in meeting its obligations as they become due. The entity manages its liquidity risk by monitoring cash flow forecasts, effectively managing its working capital and capital expenditure ensuring that a satisfactory level of cash and cash equivalents are maintained. Financing requirements are met through a mixture of cash generated from operations, long and short-term borrowings and government grants.

There have been no significant changes in the liquidity risk management policies and processes since the prior year.

The maturity profile of contractual cash flows of financial liabilities held are presented in the following table. The cash flows are undiscounted contractual amounts. It does not include future cash flows expected in the normal course of business. Inflationlinked bonds included in capital market loans are reported at their carrying amounts at the reporting date.

31 March 2021		Less than 1 year R'000	1 to 5 years R'000	5 to 10 years R'000	Over 10 years R'000	Total R'000	Carrying amount R'000
Non-current financial liabilities							
Capital market loans - amortised cost	16	-	34 124 432	5 158 178	9 103 435	48 386 045	39 084 494
Capital market loan at FVTPL - designated	17	-	1 668 678	425 765	1 622 013	3 716 456	3 716 456
Lease liabilities	16	1 123	804	-	-	1 927	1 927
Capital market loan at FVTPL - market-making	17	-	-	31 634	1 001 020	1 032 654	1 032 654
EIB loan	16	40 208	262 033	402 687	244 692	949 620	949 620
Promissory notes	16	1 151 282	-	-	-	1 151 282	1 151 282
Third-party funding	22	280 855	-	-	-	280 855	280 855
Trade and other payables	23	1 547 632	-	-	-	1 547 632	1 547 632
		3 021 100	**36 055 947**	**6 018 264**	**11 971 160**	**57 066 471**	**47 764 920**

39. Financial instruments and risk management (continued)

31 March 2020	Less than	1 to 5	5 to 10	Over	Total	Carrying	
		1 year	years	years	10 years	R'000	amount
		R'000	R'000	R'000	R'000	R'000	R'000
Non-current financial liabilities							
Capital market loans at amortised cost	16	3 781 300	23 511 265	3 681 269	8 225 826	39 199 660	40 881 442
Capital market loan at FVTPL - designated	17	138 766	1 624 133	534 049	1 277 403	3 574 351	3 033 159
Lease liabilities	16	4 407	1 943	-	-	6 350	6 350
Capital market loan at FVTPL - market-making	17	-	-	55 579	1 980 697	2 036 276	1 725 911
EIB loan	16	36 901	240 468	369 512	339 640	986 521	986 521
Promissory notes	16	1 200 000	-	-	-	1 200 000	1 121 787
Third-party funding	22	256 528	-	-	-	256 528	256 528
Trade and other payables*	23	1 635 551	-	-	-	1 635 551	1 635 551
		7 053 453	**25 377 809**	**4 640 409**	**11 823 566**	**48 895 237**	**49 647 249**

*In the prior year, the amount disclosed included the non-financial instrument which has been corrected this year. This correction does not affect the amount disclosed on the primary financial statements therefore it is not a material prior error. This spilt was included on note 23 in prior year. The effect of the change is that the carrying amount of the non-financial instrument of R2 596m has been excluded from this disclosure note on comparatives. This was corrected to ensure that the disclosure note is comparable to the current year disclosure.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to the following market risks on price risk and interest rate risk. Financial instruments affected by market risk include capital market loans held at fair value, CPI-linked loans, call and money market instruments are affected by interest rate changes. The company is exposed to price risk on its market-making assets and liabilities.

Financial liabilities at fair value through profit or loss transferred from the market-making portfolio to the funding portfolio are classified and measured as financial liabilities at fair value through profit or loss and are therefore all carried at fair value. The fair value movements on these financial liabilities will not be realised as these bonds form part of the funding portfolio at fair value and will therefore be held to maturity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

39. Financial instruments and risk management (continued)

Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

	Note	Carrying amount	
		2021	2020
Variable rate instruments:			
Assets			
Bank balances	12	25 488	62 152
Call deposits	12	18 703 000	11 147 000
Money market instruments	12	603 334	1 084 654
Capital market bonds	10	791 853	1 492 538
Capped insurance deposit	9	533 976	477 584
		20 657 651	**14 263 928**
Liabilities			
Promissory notes	16	1 151 282	1 121 787
Capital market loans at fair value	17	4 749 110	3 173 123
		5 900 392	**4 294 910**
Fixed rate instruments:			
Assets			
Fixed deposits	9&12	1 500 000	3 000 000
Repurchase agreements	12	9 477 291	3 740 076
		10 977 291	**6 740 076**
Liabilities			
Capital market loans at amortised cost	16	39 084 494	40 881 442
EIB loan	16	949 620	986 522
		40 034 114	**41 867 964**
Variable rate financial assets as a percentage of total interest bearing financial assets		65,30 %	67,91 %
Fixed rate financial assets as a percentage of total interest bearing financial assets		34,70 %	32,09 %
Variable rate financial liabilities as a percentage of total interest bearing financial liabilities		12,85 %	9,30 %
Fixed rate financial liabilities as a percentage of total interest bearing financial liabilities		87,15 %	90,70 %

39. Financial instruments and risk management (continued)

Price risk

The entity is exposed to price risk because of some of its investments which are measured at fair value.

The company manages this price risk exposure through the monitoring and management of the price risks in terms of guidelines set out in the Treasury Policy and Control Framework approved by the Board. Opportunities are identified for the natural set-off of market risks and the management of the resultant net exposures in the most cost effective manner through the operation of a market making portfolio. Price risk is accepted by the Board on the company's liabilities in its funding portfolio at fair value through profit or loss, as these liabilities ultimately fund long-term capital expenditure. Price risk before maturity is therefore unrealised.

Price risk sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which represents management's assessment of the most likely indicator of change in relevant prices. The sensitivity analysis includes only investments held at the reporting date.

An increase of 100 basis points (31 March 2020: 100 basis points) in interest rates at the reporting date would decrease profit by the amounts shown below. A decrease of 100 basis points would increase profit by the same amount. The analysis assumes that all other variables remain constant. Variable rate instruments are capital market bonds and loans held in the funding portfolio, market-making portfolio held-for-trading and variable rate money market instruments. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

Increase or decrease in rate	2021 Increase	2021 Decrease	2020 Increase	2020 Decrease
Impact on profit or loss:				
100 basis points increase (R'000)	180 367	-	150 284	-
100 basis points decrease (R'000)	-	180 367	-	150 284
	180 367	**180 367**	**150 284**	**150 284**

Market-making portfolio

The company classifies certain of its bonds as financial liabilities at fair value through profit or loss (held-for-trading). ncluded in the portfolio are market-making assets, consisting of government bonds with maturities similar to the SANRAL bonds at fair value through profit or loss. Liquidity in the market-making portfolio is managed by financial instruments having similar maturities and the value of the financial liabilities and financial assets being closely matched.

Terms of market-making financial assets

Refer to note 10 for further terms and conditions for market-making financial assets.

Capital market bonds	**Coupon rate**	**Maturity date**	**Nominal amount 31 march 2021**	**Carrying amount 31 march 2021**	**Nominal amount 31 march 2020**	**Carrying amount 31 March 2020**
R186 (2026)	10,50%	21 Dec 2026	9 250	10 541	346 750	357 335
R209 (2036)	6,25%	31 Mar 2036	741 800	488 759	1 851 200	1 135 203
R2035 (2035)	8,88%	28 Feb 2035	344 000	292 553	-	-
			1 095 050	**791 853**	**2 197 950**	**1 492 538**

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	2021 R '000	2020 R '000

39. Financial instruments and risk management (continued)

Funding portfolio at amortised cost and at fair value

Terms and conditions of outstanding loans are reflected in the table that follows. For further terms and conditions refer to notes 16 and 17.

Capital market loans at amortised cost	**Coupon rate**	**Maturity date**	**Nominal amount 31 march 2021**	**Carrying amount 31 march 2021**	**Nominal amount 31 march 2020**	**Carrying amount 31 March 2020**
Guaranteed						
SZ25	9,00%	30 Sep 2025	2 432 784	2 450 117	2 432 784	2 453 278
HWAY 20	9,75%	31 Jul 2020	-	-	3 781 300	3 788 056
HWAY 23	5,50% + CPI	7 Dec 2023	2 917 353	8 966 144	2 917 353	8 924 330
HWAY 24	5,50% + CPI	7 Dec 2024	1 499 000	4 769 412	1 499 000	4 751 530
HWAY 30	10,37%	28 Aug 2030	1 188 000	1 187 865	-	-
HWAY 33	2,25% + CPI	28 Feb 2033	1 401 000	1 730 903	1 401 000	1 676 069
HWAY 34	9,25%	31 Jul 2034	5 126 769	4 873 378	4 302 769	4 192 740
HWAY 35	9,25%	31 Jul 2035	2 223 332	2 123 341	2 199 332	2 100 862
HWF 11	8,25%	15 Jul 2022	2 000 000	2 000 274	2 000 000	1 991 797
HWF 12	8,26%	29 Jul 2022	1 650 000	1 650 170	1 650 000	1 640 168
HWF 13	8,26%	28 Nov 2022	1 000 000	1 000 094	1 000 000	992 958
			21 438 238	**30 751 698**	**23 183 538**	**32 511 788**
Unguaranteed						
NRA22	12,25%	31 Oct 2022	2 608 000	2 660 140	2 623 000	2 702 971
NRA23	5,00% + CPI	31 May 2023	889 750	1 702 342	889 750	1 673 202
NRA28	12,25%	30 Nov 2028	3 681 269	3 970 314	3 681 269	3 993 482
			28 617 257	**39 084 494**	**30 377 557**	**40 881 443**

Capital market loan at FVTPL	**Coupon rate**	**Maturity date**	**Nominal amount 31 march 2021**	**Carrying amount 31 march 2021**	**Normal amount 31 march 2020**	**Carrying amount 31 March 2020**
Guaranteed						
SZ25	9,00%	30 Sep 2025	1 596 410	1 654 204	1 608 410	1 485 710
HWAY20	9,75%	31 Jul 2020	-	-	138 766	139 965
HWAY34	9,25%	31 Jul 2034	1 420 993	1 165 971	716 403	553 762
HWAY35	9,25%	31 Jul 2035	561 000	456 043	561 000	431 214
			3 578 403	**3 276 218**	**3 024 579**	**2 610 651**
Unguaranteed						
NRA22	12,25%	31 Oct 2022	13 423	14 474	15 723	17 025
NRA28	12,25%	30 Nov 2028	370 674	425 764	534 049	545 447
			3 962 500	**3 716 456**	**3 574 351**	**3 173 123**

	2021 R '000	2020 R '000

39. Financial instruments and risk management (continued)

Capital market loan - market - making liabilities at FVTPL	**Coupon rate**	**Maturity date**	**Nominal amount 31 march 2021**	**Carrying amount 31 march 2021**	**Nominal amount 31 march 2020**	**Carrying amount 31 March 2020**
Guaranteed						
HWAY34	9,25%	31 Jul 2034	820 900	673 574	1 552 890	1 200 346
HWAY35	9,25%	31 Jul 2035	402 806	327 446	427 806	328 834
			1 223 706	**1 001 020**	**1 980 696**	**1 529 180**
Unguaranteed						
NRA28	12,25%	30 Nov 2028	27 541	31 634	55 579	56 765
			1 251 247	**1 032 654**	**2 036 275**	**1 585 945**

The difference in the carrying amount of designated liabilities at fair value through profit or loss and held-for-trading and the amounts contractually required to pay at maturity is disclosed in the tables above. The contractual amount required to pay at maturity is the nominal amount. In the case of CPI linked bonds, the contractual amount at maturity is the CPI-adjusted nominal amount.

The entity is exposed to financial risks arising from changes in market prices. The entity has not entered into derivative contracts to manage the risk of any adverse change in market prices. The entity reviews its outlook for market prices regularly in considering the need for active financial risk management.

Financial liabilities at amortised cost (refer to note 16)

Financial liabilities at amortised cost	**Coupon rate**	**Maturity date**	**Nominal amount 31 march 2021**	**Carrying amount 31 march 2021**	**Nominal amount 31 march 2020**	**Carrying amount 31 March 2020**
Guaranteed						
EIB loan - tranche 1	8,32%	15 Jun 2034	475 264	475 264	493 822	493 822
EIB loan - tranche 2	9,23%	15 Mar 2034	474 357	474 357	492 700	492 700
Promissory note PN6	8,00%	11 Feb 2021	-	-	560 000	523 727
Promissory note PN7	7,90%	19 Feb 2021	-	-	640 000	598 060
Promissory note PN9	4,75%	11 Feb 2022	560 000	537 881	-	-
Promissory note PN10	4,90%	18 Feb 2022	640 000	613 402	-	-
			2 149 621	**2 100 904**	**2 186 522**	**2 108 309**

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39. Financial instruments and risk management (continued)

Trade and other receivables

The maximum exposure to credit risk relating to the toll receivables at the reporting date by geographical region is as follows:

	2021 R '000	2020 R '000
Toll debtors		
Northern region	9 778 886	9 913 140

The maximum exposure to credit risk relating to the property/lease receivables at the reporting date by geographical region was:

	2021 R '000	2020 R '000
Property/tenant debtors		
Northern region	3 729	1 041
Eastern region	4 652	382
Western region	1 944	148
	10 325	**1 571**

	2021 R '000	2020 R '000
Sundry and other debtors		
Head office	550 573	533 301
Eastern region	22 897	26 189
Western region	214	17 055
Northern region	66 705	38 279
Southern region	192 706	123 831
	833 095	**738 655**

The sundry and other debtors' balance above includes the expansion works fund receivable.

39. Financial instruments and risk management (continued)

The movement in the expected credit loss allowance was as follows:

	2021 R '000	2020 R '000
Toll debtors		
Opening balance	9 830 617	10 043 869
Impairment loss recognised for current year	4 050	8 079
Impairment reversed on settled debts	(188 256)	(221 331)
	9 646 411	**9 830 617**
Property debtors		
Opening balance	1 250	782
Impairment loss recognised for current year	4 925	1 176
Impairment adjustment on settled debt	(749)	(708)
	5 426	**1 250**
Sundry debtors		
Opening balance	345 656	273 904
Less bad debts	(9)	-
Less impairment adjustment on settled debts in opening balance	(26 262)	(73 678)
Impairment loss recognised for current year	201 557	145 430
	520 942	**345 656**

Refer to note 11 for details of trade and other receivables.

		2021 R '000	2020 R '000

40. FAIR VALUE INFORMATION

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements

Level 1

Recurring fair value measurements

	Note(s)	2021 R '000	2020 R '000
Assets	Note(s)		
Financial assets at fair value through profit (loss)	10		
Capital market bonds		791 853	1 492 538
Liabilities	Note(s)		
Financial liabilities at fair value through profit (loss)	17		
Capital market loans		4 749 110	4 759 070
Financial liabilities at amortised cost			
Capital market loans at amortised cost		38 131 513	38 008 359

Level 2

Recurring fair value measurements

	Note(s)	2021 R '000	2020 R '000
Liabilities	Note(s)		
Financial liabilities at amortised cost			
EIB loan		839 000	831 850
Promissory notes		1 147 913	1 130 560
		1 986 913	**1 962 410**

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40. Fair value information (continued)

Level 3

Recurring fair value measurements

	Note(s)	2021 R '000	2020 R '000
Assets			
Property, plant and equipment under concession	4		
Road structures		9 780 467	8 916 847
Road network		45 015 289	44 072 769
		54 795 756	**52 989 616**
Investment property	7		
Investment property		1 741 728	1 788 477
Property, plant and equipment	5		
Land		21 760 200	21 108 346
Road network		267 653 835	269 026 827
Road structures		86 541 079	77 511 081
		375 955 114	**367 646 254**

Non recurring fair value measurements

	Note(s)	2021 R '000	2020 R '000
Assets held for sale and disposal groups in accordance with IFR S	5		
Investment property		13 687	22 613

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40. Fair value information (continued)

Reconciliation of assets and liabilities measured at level 3

	Note(s)	Opening balance R'000	Gains (losses) in profit (loss) R'000	Gains (losses) in OCI R'000	Purchases/ Transfers R'000	Sales/ Write-offs R'000	Classified as held for sale R'000	Depreciation/ Impairment R'000	Closing balance R'000
31 March 2021									
Assets									
Property, plant and equipment under concession	4								
Road structures		8 916 847	-	870 784	11 554	-	-	(18 718)	9 780 467
Road network		44 072 769	-	(432 030)	1 893 965	(698)	-	(518 717)	45 015 289
Total property, plant and equipment under concession		**52 989 616**	**-**	**438 754**	**1 905 519**	**(698)**	**-**	**(537 435)**	**54 795 756**
Investment property	7								
Investment property		1 788 477	(46 749)	-	-	-	-	-	1 741 728
Non-current assets held for sale		22 613	(346)	-	-	(8 580)	-	-	13 687
Total investment property		**1 811 090**	**(47 095)**	**-**	**-**	**(8 580)**	**-**	**-**	**1 755 415**
Property, plant and equipment	5								
Land		21 108 346	-	646 739	5 115	-	-	-	21 760 200
Road network		269 026 827	-	(1 630 234)	3 434 043	-	-	(3 176 801)	267 653 835
Road structures		77 511 081	-	8 815 672	421 403	-	-	(207 077)	86 541 079
Total property, plant and equipment		**367 646 254**	**-**	**7 832 177**	**3 860 561**	**-**	**-**	**(3 383 878)**	**375 955 114**
Total		**422 446 960**	**(47 095)**	**8 270 931**	**5 766 080**	**(9 278)**	**-**	**(3 921 313)**	**432 506 285**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Fair value information (continued)

Reconciliation of assets and liabilities measured at level 3

	Note(s)	Opening balance R'000	Gains (losses) in profit (loss) R'000	Gains (losses) in OCI R'000	Purchases/ Transfers R'000	Sales/ Write-offs R'000	Classified as held for sale R'000	Depreciation/ Impairment R'000	Closing balance R'000
31 March 2020									
Assets									
Property, plant and equipment under concession	4								
Road structures		8 527 249	-	260 999	144 825	-	-	(16 226)	8 916 847
Road network		37 950 826	-	6 195 260	352 377	-	-	(425 694)	44 072 769
Total property, plant and equipment under concession		**46 478 075**	**-**	**6 456 259**	**497 202**	**-**	**-**	**(441 920)**	**52 989 616**
Investment property	7								
Investment property		1 776 215	12 153	-	-	(1 429)	1 538	-	1 788 477
Non-current assets held for sale		34 460	2 019	-	9 296	(12 331)	(10 831)	-	22 613
Total investment property		**1 810 675**	**14 172**	**-**	**9 296**	**(13 760)**	**(9 293)**	**-**	**1 811 090**
Property, plant and equipment	5								
Land		21 735 605	-	(676 670)	49 498	(87)	-	-	21 108 346
Road network		239 004 723	-	25 314 198	7 669 202	-	-	(2 961 296)	269 026 827
Road structures		71 191 462	-	5 318 803	1 189 531	-	-	(188 715)	77 511 081
Total property, plant and equipment		**331 931 790**	**-**	**29 956 331**	**8 908 231**	**(87)**	**-**	**(3 150 011)**	**367 646 254**
Total		**380 220 540**	**14 172**	**36 412 590**	**9 414 729**	**(13 847)**	**(9 293)**	**(3 591 931)**	**422 446 960**

Gains or losses recognised in profit or loss relates to fair value adjustments on investment properties.

Gains or losses recognised in other comprehensive income (OCI) relates to property revaluation adjustments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Fair value information (continued)

Valuation techniques used to derive level 2 fair values

EIB loan

Valuation technique

The EIB loan is an amortising loan in two tranches, each tranche payable semi-annually. The tranches are not synchronised, resulting in quarterly payments. Final payment will be on 30 June 2034. The interest rate is fixed. The closest SANRAL bond is the HWAY34 with a yield of 11.98% on 31 March 2021 (31 March 2020: 12.73%). This equates to an IRR of 12.33% on 31 March 2021 (31 March 2020: 13.14%). The loan value, given all the outstanding payments to give an IRR of 12.33%, is equal to R839m as at 31 March 2021 (31 March 2020: R832m at IRR of 13.14%).

Significant observable inputs

HWAY34 bond

Sensitivity

A change of 20 basis points in the internal rate of return (IRR) changes the value of the loan by 0.94%, or R7.990m (31 March 2020: 0.96%, or R7.950m).

Promissory Notes

Valuation technique

The promissory notes are 12-month guaranteed discounted notes. The notes were issued at a rate between 4.75% to 4.90% (31 March 2020: 7.90% to 8.00%), which was 12-month JIBAR rate plus 55 basis points (31 March 2020: 55 basis points). The 1-year JIBAR was 4.63% on 31 March 2021, 33 points higher from issue of the notes. The notes were therefore valued at 5.18% (31 March 2020: 7.00%). This equals to an IRR value of R1.148bn at 31 March 2021 (31 March 2020: 1.131bn).

Significant observable inputs

BEASSA yield curve

Sensitivity

A change of 20 basis points in the spread changes the value of the loan by 0.17% or R1.927m (31 March 2020: 0.17% or R1.872m).

Information about valuation techniques and inputs used to derive level 3 fair values

Investment property

Investment properties with a fair value of R1.755bn (31 March 2020: R1.811bn) have been determined by direct comparison of selling prices achieved of comparable properties. The key unobservable inputs are selling prices of comparable properties and subjective adjustments by the valuer to account for differences between the property and comparable properties sold in terms of location, physical features (topography, shape, access) current and future land use, zoning and prevalent market conditions at dates of valuations.

40. Fair value information (continued)

Sensitivity

In accordance with the SANRAL investment property (IP) policy, the valuation of investment properties is only considered for properties greater than R10 000 outside of the declared road reserve and those properties with a valid lease agreement if they are within the road reserve. The valuation of properties considers other key factors such as topography, shape, legal ownership and ecological issues as rejection criteria.

Land

The valuation technique adopted for land is based on the "across the fence" method using comparable sales (strip valuation) in respect of un-improved land through which the road passes. Once departure value ranges have been established through this method, adjustments are made by the valuer to account for development rights, physical features, engineering services and crop improvements.

Sensitivity

The carriageway length of the road network increased by 0.34% from 24 822km to 24 906 in 2021 financial year. As a result, the total land area increased by 472,53ha (0,45%). The average strip value increased from R204 765 to 207 714 (1.44%) due to changes in economic activities and updated sales information that became available. For the 2021 financial year the market value of the land increased from R20 894m to R21 581m which is mainly due to the increase in land area.

The higher the price per square metre and premium on quality, the higher the fair value and vice versa.

It is unlikely that a variation in any input by a reasonably possible alternative amount will significantly impact the valuation.

Road network and road structures

The fair value of the road network and road structures was determined using depreciated replacement cost approach. The key unobservable inputs are the replacement costs.

Sensitivity

The following factors impact the annual change in the gross replacement cost and depreciated replacement cost of SANRAL roads:

Change in network length: The incorporation of the remainder of strategic and primary road network from provinces during a year, as well as the upgrading of roads from single carriageway to four-lane road or dual carriageway, impacts on the value of assets, as asset value is calculated for every carriageway-km of road as at 31 March of each year. The carriageway length increased from 24 822 to 24 906 (0.34%) in 2021.

Change in unit rates: Change in standard unit rates from one year to another are influenced by exchange rate fluctuations, crude oil prices (impacts bitumen and diesel prices), steel prices, cement prices, equipment prices, labour costs, market conditions (supply and demand that determines mark-up of contractors). In addition, Stats SA publishes the construction price adjustment (CPA) factor which all construction contracts are linked to. While the average increase in unit rates for road materials is 1.56% in 2021, the increase in material costs of structures is 10.19%; resulting in the greater increase in Network Replacement Cost. This is principally driven by an increase in the materials and equipment needed for the construction of structures. This can be attributed to current market conditions as well as the effects of the COVID-19 pandemic.

40. Fair value information (continued)

Change in condition: Since the depreciation of the pavement layer component and the structures component are directly related to the condition of the asset, deterioration in condition (due to traffic and climate) will result in a decrease in depreciated replacement cost. The opposite also applies if the condition of asset improved due to maintenance actions. As can be appreciated, for each carriageway-km, as used in the asset valuation, the condition will be changing based on numerous local climate, traffic and maintenance impacts. The length of network in good condition decreased by 4.83% from 14 535km to 13 832km.

Maintenance: Any reseal, overlay, or strengthening work performed on the assets impacts on the condition of the asset, the remaining life of the asset and thus the condition-based depreciation of each carriageway-km of road is affected.

Change in traffic: Since the depreciated replacement cost (DRC) method is based on replacing an existing asset with a modern equivalent asset (MEA) in today's prices, based on the traffic expected over the next 25 years, the impact of change in traffic is obvious. If the road design class is close to a transition interface, then a small increase in traffic over the year, can result in a change in the MEA required (more layers and/or higher quality materials), with associated cost increases for specific road assets. The opposite applies if the traffic decreases. SANRAL has over 1 000 traffic monitoring stations on the network.

On some sections traffic increases and on others it decreases from one year to another. The length of the network with more than 5 000 vehicles per day decreased by 0.15% from 8 730km to 8 717km in 2021. This is mainly related to impact of higher fuel on long distance travel and lock down.

Change in dimensions: Since the DRC method is based on replacing current road width with the MEA, any change in road width or structure area from one year to the other, due to maintenance actions, addition of paved shoulders, addition of lanes and addition of climbing lanes, will increase the replacement cost of each carriageway-km of road affected. In the 2019 financial year the replacement value of the layer works was calculated using the same layer width for all pavement layers. In the 2020 financial year this was changed to using different widths for each layer by widening lower layers marginally based on the width and the thickness of the layer above. This new valuation technique provides a better estimation of replacement cost that would be incurred if the layer works would be reconstructed. The change resulted in a huge revaluation adjustment. In 2021 the average cross section of network decreased by 0.67% from 10.38m, thereby decreasing the revaluation gain compared to 2020.

From 2020 to 2021 the Network Replacement Cost and the Network Depreciated Replacement Cost have increased. This change is driven by a few factors. The road network has increased slightly due to the incorporation of existing roads from provincial authorities, opening of newly constructed roads as well as the dualling of roads. The dualling of existing roads is the reason why the network carriageway length has increased by a larger percentage than the centerline length. However, the overall increase in the road network for the past financial year is minimal and is a small contributor to the increase in Network Replacement Cost.

Impact of COVID-19 on valuation of road network and structures

A decrease in commuter traffic was observed in urban areas as a result of COVID-19 however, as the majority of SANRAL's network is not comprised of urban routes, very little decrease in traffic across the network was recorded, and in most instances the heavy vehicle traffic recovered in full after relaxation of lock down restrictions. The impact of the reduced commuter traffic did not significantly reduce the number of roads carrying more than 5 000 vehicles per day. As indicated the heavy vehicle traffic volume that is linked to the pavement structure that would need to be constructed for a modern

40. Fair value information (continued)

equivalent asset replacement remained unaffected. The minimal decrease in light vehicle commuter traffic therefore had little impact in decreasing the Network Replacement Cost.

The quantity of network in a good condition decreased by 4.83%. This can be attributed to delays in commencing construction and repair projects, as well as reduction in production on projects due to the impact of COVID-19. The reason that the Network Depreciated Replacement Cost increased by a lower percentage than the Network Replacement Cost can be attributed to this decrease in network condition rather than COVID-19.

The key impact of COVID-19 can be summarised as follows:

a) **Reduced Commuter Traffic** - After relaxation of lock down restrictions to level 1, commuter traffic (light vehicles) recovered to between 85% and 95% of pre COVID-19 levels in major metropolitan areas and for most of the rural network it recovered to 95 to 100%. Heavy vehicles however fully recovered to pre lock down levels across the whole network. As indicated, heavy vehicles determine the modern equivalent pavement structure required. The replacement asset value remained unaffected by COVID-19.

b) **Network Condition Deterioration** – The overall network condition deteriorated due to delays in commencing new construction and repair projects as result of the impact of the COVID-19 lock down restrictions on tendering procedures and reduced production on existing projects due to the impact of COVID-19 lock down restrictions on site activities (initially completely stopped and later social distancing requirements) and material supplies.

Fair value analysis

Set out below is a comparison by class of the carrying amounts and fair value of the entity's financial instruments.

Financial assets R'000	Fair value at 31 March 2021	Carrying amount 31 March 2021	Fair value at 31 March 2020	Carrying amount 31 March 2020
Capital market bonds	791 853	791 853	1 492 538	1 492 538
Trade and other receivables	472 235	472 235	386 268	386 268
Cash and cash equivalents	29 340 291	29 340 291	16 533 894	16 533 894
Short-term deposits	1 007 480	1 000 000	2 563 472	2 500 000
Capped insurance deposit	533 976	533 976	477 584	477 584
	32 145 835	**32 138 355**	**21 453 756**	**21 390 284**

Financial liabilities R'000	Fair value at 31 March 2021	Carrying amount 31 March 2021	Fair value at 31 March 2020	Carrying amount 31 March 2020
Capital market loans at amortised cost	38 131 513	39 084 494	38 008 359	40 881 442
Capital market loan at fair value	4 749 110	4 749 110	4 759 069	4 759 069
EIB loan	839 000	949 620	831 850	986 522
Promissory notes	1 147 913	1 151 282	1 130 560	1 121 787
Trade and other payables	1 547 632	1 547 632	1 635 551	1 635 551
	46 415 168	**47 482 138**	**46 365 389**	**49 384 371**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Fair value information (continued)

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Cash and cash equivalents, trade receivables, trade payables, and all other financial assets and liabilities that has a carrying amount that approximate their fair values have been excluded from hierarchy levels on this note for fair value disclosure purposes. Their disclosure is not required in terms of IFRS 7.29. Thus removal of these fair value disclosures on hierarchy levels is not considered to be period error or non compliance with IFRS. These were removed for decluttering purposes.

The fair value of listed bonds is based on quoted prices at the reporting date. The fair values of other financial liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

41. PUBLIC PRIVATE PARTNERSHIPS - TOLL COLLECTION SERVICE CONCESSION ARRANGEMENTS

There were no changes in the arrangements occurring during the period.

Description of the arrangements

SANRAL contracted partners in the private sector (concession contracts) as an alternative means for long-term financing, operating, maintaining and improving national road network infrastructure, with costs being recovered through toll charges levied. Currently there are three concessions, N3 Toll Concession RF Pty Ltd (N3TC), N1/N4 Bakwena Platinum Corridor Concessionaire (Bakwena) and N4 Trans African Concessions (TRAC). Under these contracts, each concessionaire is responsible for the design, financing, construction, maintaining and operating its contracted/specified portion of the road network.

Bakwena is responsible for the toll road between Pretoria and Bela-Bela on the N1 highway and between Pretoria and Botswana border post on N4 West for a period of 30 years ending August 2031. Bakwena is also contracted for the Trans-Kalahari Highway between Walvis Bay and Maputo. N3TC is responsible for the toll route from Cedara to Heidelberg on N3 highway for a period of 30 years ending November 2029. TRAC is a cross-border concessionaire responsible for the toll road from Solomon Mahlangu Road in Pretoria to Maputo in Mozambique on the N4 highway east for a period of 30 years ending February 2028.

The TRAC concession contract was extended from the Gauteng-Mpumalanga border to the Tshwane Metropolitan border. An amount of R251m was received on 28 February 2005 and is being amortised over the remaining life of the concession.

Significant terms of the arrangements

For the N3 toll route, SANRAL received an upfront payment of R1.380bn and an additional payment of R52m during the 2008 financial year. The concessions are for a specified period of 30 years. For the N1/N4 route no payment was received from the concessionaire. Significant terms that may affect the amount, timing or certainty of future cash flows are summarised below.

The concessionaires on the N3 and N4 Maputo toll roads are also required to pay SANRAL a highway usage fee (HUF) in certain circumstances (section 2.5 of the concession contract and annexure 15 to the concession contract). The HUF is a mechanism for limiting the return on the project which can be distributed by the concessionaire to its shareholders. On the N4 Platinum a revenue share mechanism is achieving the same objective.

SANRAL does not guarantee the minimum third-party revenue that the concessionaire will collect. SANRAL is not required to compensate the concessionaire if the traffic on the highway is less than expected.

41. Public private partnerships - toll collection service concession arrangements (continued)

The nature and extent of the arrangement

Right of use of specified assets

The costs of acquiring the site were borne by SANRAL. Once the site has been delivered to the concessionaire, the property is "under the care, custody and control of the concessionaire" and the concessionaire bears the risks associated with the property (section 15.5 of the concession contract).

The concession contract specifically states that the concessionaire has "no title to, ownership interest in, or liens or leasehold rights or any other rights" in the site and title to the site remains with SANRAL. SANRAL is required to ensure that the concessionaire has access to and the right of use in respect of the site and equipment (as necessary for it to perform its obligations in terms of the contract) throughout the concession period.

Should the concessionaire discover any "fossils, coins, articles of value or antiquity, and structures and other remains or things of geological or archaeological interest or burial sites" on the site during the concession period, these will be the property of SANRAL. SANRAL has ownership of the road and related facilities (for example toll plaza buildings) throughout the concession period.

Obligations to deliver or rights to receive specified assets at the end of the concession period

The ownership of any drawings, data, books, reports, documents, software, any other information owned by the concessionaire or any of the subcontractors for the purpose of the project is required to be transferred to SANRAL at the end of the concession period. Furthermore, the concessionaire is required to hand over the highway and its rights or interest in the developments to SANRAL, free of charge. These assets are required to be free from any liens, claims, encumbrances and liabilities and are required to be in a specified condition with a specified remaining useful life.

Obligations to provide or rights to expect provision of services

The concession contract requires the concessionaire to operate and perform routine maintenance work on the road network to ensure proper operation and maintenance of the highway.

The contracts also require concessionaires to acquire or build items of property, plant and equipment:

- Initial construction works relating to the highway and associated facilities (as specified in the concession contract and including, for example repairs and replacements relating to specified sections of the highway and the construction/repair of toll plazas).
- Additional construction works relating to the road and related facilities (that is, required construction work other than the initial construction works).
- Upgrade works according to the provisions in the contract.

41. Public private partnerships - toll collection service concession arrangements (continued)

Renewal and termination options

The concession rights will terminate if either SANRAL or the concessionaire terminates the concession contract SANRAL has the right to terminate the concession contract in any of the following circumstances:

- There is court action for the dissolution and/or liquidation of the concessionaire.
- The concessionaire receives a court order to be placed under judicial management or to commence liquidation procedures.
- The concessionaire fails to complete the initial construction works within three years of commencement of the concession contract.
- The concessionaire ceases to operate and maintain the highway.
- All (or substantially all) of the concessionaire's indebtedness becomes due and payable as a result of default by the concessionaire.
- The concessionaire fails to report a material related-party transaction (as required by the concession contract).
- The concessionaire commits a material breach of the provisions of the concession contract.

If any of the abovementioned is not remedied by the concessionaire within a specific period, then SANRAL has the right to appoint a substitute entity in the place of the concessionaire.

The concessionaire has the right to terminate the concession contract in any of the following circumstances:

- SANRAL commits a material breach of the provisions of the concession contract.
- There is a material impairment of the concession rights as a result of the concessionaire being nationalised or expropriated or the project land/highway being compulsorily acquired from the concessionaire by the state.
- Certain material adverse governmental action takes place.

Other rights and obligations

The concessionaire is only permitted to raise debt (from lenders) as specified in the concession contract. The concessionaire requires SANRAL's approval for any additional debt. SANRAL would take over the concessionaire's indebtedness in the event of concessionaire default.

Classification

SANRAL recognises no revenue from services provided to the public for these concessions, except where HUF's are payable to SANRAL by the concessionaire according to the service concession agreement.

SANRAL recognises no operational costs related to the operations of the public infrastructure under concession.

SANRAL recognises no obligations to restore infrastructure to a specified level of serviceability.

SANRAL recognises the upfront payment received from operators over the period of the concession arrangement.

There were no changes to all the concession arrangements during the current year.

42. SEGMENT INFORMATION

Statement of comprehensive income

		31 March 2021			31 March 2020	
Figures in R'000 operations	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Revenue	3 706 874	6 175 695	9 882 569	4 370 120	6 551 922	10 922 042
GFIP grant	2 721 793	-	2 721 793	2 667 939	-	2 667 939
Other income	1 074 217	506 342	1 580 559	972 739	98 581	1 071 320
Other expenses*	(2 492 638)	(4 491 131)	(6 983 769)	(2 596 150)	(4 582 233)	(7 178 383)
Net fair value gains	(252 922)	-	(252 922)	281 871	-	281 871
EBITDA	4 757 324	2 190 906	6 948 230	5 696 519	2 068 270	7 764 789
Depreciation on PPE	(1 305 218)	(2 335 655)	(3 640 873)	(1 239 040)	(2 148 197)	(3 387 237)
Depreciation on PPE under concession	(589 652)	-	(589 652)	(488 376)	-	(488 376)
Amortisation	(14 821)	(5 226)	(20 047)	(14 805)	(5 100)	(19 905)
Fair value adjustments	-	(47 095)	(47 095)	-	14 174	14 174
Finance income	386 939	1 033 480	1 420 419	696 158	781 973	1 478 131
Finance costs	(3 690 124)	(76)	(3 690 200)	(4 097 958)	(277)	(4 098 235)
	(455 552)	**836 334**	**380 782**	**552 498**	**710 843**	**1 263 341**

* Excluding depreciation, amortisation and asset impairment

Material items of income and expense disclosed in accordance with IAS 1:

		31 March 2021			31 March 2020	
Figures in R'000 operations	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Fees for services and other expenditure	(292 905)	(714 179)	(1 007 084)	(335 965)	(898 417)	(1 234 382)
Repairs and maintenance	(2 246 310)	(2 973 375)	(5 219 685)	(2 399 509)	(2 930 704)	(5 330 213)
	(2 539 215)	**(3 687 554)**	**(6 226 769)**	**(2 735 474)**	**(3 829 121)**	**(6 564 595)**

42. Segment information (continued)

Material non-cash items (other than depreciation and amortisation)

			31 March 2021		31 March 2020	
Figures in R'000 operations	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Changes in fair value of investment property	-	(47 095)	(47 095)	-	14 174	14 174
Exchange consideration	859 489	-	859 489	736 236	-	736 236
Revaluation of road network	3 911 064	3 713 128	7 624 192	15 917 389	21 171 871	37 089 260
Revaluation of land	211 242	435 497	646 739	(973 010)	296 340	(676 670)
	4 981 795	**4 101 530**	**9 083 325**	**15 680 615**	**21 482 385**	**37 163 000**

Statement of Financial Position reportable segment assets

			31 March 2021		31 March 2020	
Figures in R'000	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Property, plant and equipment under concession	58 118 856	-	58 118 856	56 779 342	-	56 779 342
Property, plant and equipment	104 752 853	283 409 996	388 162 849	101 736 338	279 841 683	381 578 021
Investment property	1 128 477	613 251	1 741 728	1 128 130	660 347	1 788 477
Intangible assets	40 449	65 363	105 812	105 493	63 460	168 953
Financial assets at amortised cost	221 190	312 786	533 976	164 798	312 786	477 584
Other receivable	227 443	-	227 443	354 288	-	354 288
	164 489 268	284 401 396	448 890 664	160 268 389	280 878 276	441 146 665
Current assets	3 210 077	28 394 302	31 604 379	3 675 612	17 237 088	20 912 700
Non-current assets held for sale	13 687	-	13 687	22 613	-	22 613
	167 713 032	**312 795 698**	**480 508 730**	**163 966 614**	**298 115 364**	**462 081 978**

42. Segment information (continued)

Statement of Financial Position reportable segment liabilities

Non-current liabilities

	31 March 2021			31 March 2020		
Figures in R'000 operations	Toll operations	Non-toll operations	Total	Toll operations	Non-toll operations	Total
Financial liabilities at amortised cost	39 994 710	-	39 994 710	38 049 356	-	38 049 356
Financial liabilities at fair value through profit or loss	3 716 456	-	3 716 456	3 033 159	-	3 033 159
Retirement benefit obligation	-	50 841	50 841	-	47 976	47 976
Deferred income*	445 547	64 161 179	64 606 726	503 846	54 583 551	55 087 397
Provisions	359 506	25 384	384 890	357 325	21 803	379 128
Deferred exchange consideration	8 980 156	735 706	9 715 862	8 469 056	735 705	9 204 761
	53 496 375	64 973 110	118 469 485	50 412 742	55 389 035	105 801 777
Current liabilities	7 259 687	14 627 659	21 887 346	12 734 838	12 049 299	24 784 137
	60 756 062	**79 600 769**	**140 356 831**	**63 147 580**	**67 438 334**	**130 585 914**

* A disclosure error made in the prior year has been identified and corrected in the current period. Non-current deferred income on toll portfolio was disclosed as R11 885m instead of R504m, with the difference should have been added to non-toll. The total non-current deferred income did not change. The error was caused by an apportionment formula error on the reconciliation. Deferred income information is extensively disclosed on note 19, which also splits between toll and non toll. In the prior year, note 19 was correctly disclosed. This identified error has no impact on the primary financial statements. Therefore this error identified on this segment report is not material and is not expected to have misled or influenced the knowledgeable users of financial statements as the correct split was disclosed on note19.

Capital expenditure

	31 March 2021			31 March 2020		
Figures in R'000	Toll operations	Non-toll operations	Total operations	Toll	Non-toll operations	Total operations
Additions to PPE	653 679	1 735 913	2 389 592	1 975 404	1 942 315	3 917 719
Borrowing costs capitalised	45 460	-	45 460	166 703	-	166 703
Additions to intangible assets	10 865	5 013	15 878	1 798	16 293	18 091
	710 004	**1 740 926**	**2 450 930**	**2 143 905**	**1 958 608**	**4 102 513**

	31 March 2021			31 March 2020		
Figures in R'000	Toll operations	Non-toll operations	Total operations	Toll	Non-toll operations	Total operations
Capital expenditure - PPE under concession	1 493 844	-	1 493 844	1 382 923	-	1 382 923
Provision for rehabilitation cost**	76	4 407	4 483	797	826	1 623
	1 493 920	**4 407**	**1 498 327**	**1 383 720**	**826**	**1 384 546**

** The prior year amounts for the provision for rehabilitation costs were amended to enhance the readability of the amounts. The total balance of the provision is still the same. This was done to get rid of negative amounts as previous disclosed. These are not material disclosure changes.

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	2021 R '000	2020 R '000

42. Segment information (continued)

Amendments to internal reporting organisation

No changes were made to the structure of SANRAL's internal organisational and operational structure (from segment reporting perspective) that could have caused the composition of its reportable segments to change.

Entity-wide disclosures

SANRAL's operations are situated within South Africa. All revenues from external customers, as well as non-current assets, are attributable to SANRAL's South African domicile. The income, expense, assets and liabilities reported in the segments above have been measured in the same way as reported in the primary financial statements of the entity and to decision makers/management. As such, IFRS (accrual basis) was used as the basis of accounting framework.

There is no other systematic method followed to allocate transactions and balances. Transactions are recorded to the segment they belong to when incurred. No customers were identified as major for segment reporting purposes. Refer to financial statements and the related disclosure notes for the restatement of comparative figures.

43. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

	2021	2020
Supply chain policy not adhered to		
Opening balance	11 229 145	10 886 997
Add: Current year irregular expenditure	175 283	342 148
Less: Loss recoverable (not condoned)	-	-
Less: Loss not recoverable (not condoned)	-	-
Less: irregular expenditure condoned	(9 956 724)	-
Irregular expenditure not yet condoned	**1 447 704**	**11 229 145**
Analysis of irregular expenditure per age classification		
Current year	175 283	342 148
Prior years less condoned	1 272 421	10 886 997
	1 447 704	**11 229 145**
Details of current year irregular expenditure		
Awarding of preference points to bidders without original or certified B-BBEE certificates	21 254	36 146
Additional scope not approved	-	2 457
Invalid tax clearance certificates	-	1 259
Contracts not advertised for at least five working days on CIDB website	30 453	40 775
Non-compliance with subcontracting requirements	2 614	2 915
Non-compliance with section 51	11 115	186
Parceling or splitting of bids	-	373
Expenditure not approved by delegated authority or National Treasury	76 269	80 544
Amount paid exceeds contract amount	8 535	173 724
Non compliance with tender pre-qualification criteria - bank letters and local content	774	-
Preference points calculated using amounts excluding VAT	239	-
Unfair discrimination against bidders	1 287	3 606
Unfair quotation process	590	94
Invalid deviation of sole source provider	-	69
Three quotations not obtained from the approved panel of services providers	45	-
Deviations not approved by National Treasury or delegated authority	22 108	-
	175 283	**342 148**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

43. Irregular, fruitless and wasteful expenditure (continued)

31 March 2021

The following is a summary of the irregular expenditure incurred during the reporting period. Of the R175.28m disclosed above, R81.21m (46%) relates to irregular contracts identified in the current year. A loss control function to determine the causes of irregular expenditure and make recommendations is in place, its determinations are in progress. As at year end, there were no fraudulent and criminal acts found against employees and no material losses were regarded as recoverable from employees or perpetrators. A register for irregular expenditure with detailed descriptions as required by National Treasury is available on request. As at year end, management confirms that:

i. There were no material losses and no irregular expenditure that was incurred through criminal conduct during the current financial year.

ii. Thus no criminal or disciplinary steps have been taken as a consequence of such losses or irregular expenditure through criminal conduct. However, staff training, supply chain management capacity enhancement and disciplinary actions have taken place in cases where it was determined appropriate to prevent irregular expenditure caused by unintentional acts and lack of knowledge; and

iii. The loss control committee, through the Accounting Authority, is in process of applying for condonation from National Treasury for all the irregular expenditure where no loss was incurred and no criminal conduct was identified. An application for condonation was submitted for R10 887m for irregular expenditure identified in 2019 and prior financial years. There were no loss recoverable or written off during the current financial reporting period. The loss control committee assessed the accumulated irregular expenditure for loss determination.

iv. At 31 March 2021, an application for condonation was submitted to National Treasury for R10 887m for irregular expenditure identified in 2019 and prior financial years. National Treasury reviewed and condoned R9 957m by 11 August 2021. Paragraph 56 of the irregular expenditure framework was complied with.

The following is the summary of matters that resulted in the irregular expenditure disclosed above:

a. Awarding of preference points to tenders without original or certified Broad-based Black Economic Empowerment (BBBEE) certificates

On projects X.002-148-2016/1 & X.002-027-2013/1 bidders were appointed and contracted without an original or certified copy of B-BBEE certificates in the 2015-16 financial years, the current year expenditure relating to these projects is R0.84m. On projects N.001-058-2014/1, N.002-068-2015/1 & C.005-013-2013/1 it could not be determined whether the B-BBEE certificates submitted was original as the bidders received their certificates electronically from their verification agents, the current year expenditure amounted to R4.61m. Bidders who were mathematically determined not to be in contention for appointment and whose aggregate of price and preference points would result in a negative number, were excluded from evaluation on projects R.067-050-2016/1S, P.003-014-2016/1-59C/60C/61C, P.003-012-2015/1-P3 and P.003-012-2015/1-P2; the current year expenditure on these projects amounted to R15.80m.

b. Additional scope not approved

On project N.002-270-2012/1, it was confirmed that additional works of R10m on P709 road was not included in the bill of quantities of the original contract and the additional works was not approved by National Treasury. There was no expenditure incurred in the current year.

c. Contracts not advertised for at least five working days

The tender notices of winning bidders were not placed on the CIDB i-tender website for at least five working days. This relates to projects N.002-012-2016, R.300-010-2018/1 and R.300-010-2016/2 which are not yet complete. The value of these amounted to R23.06m in the current year. On projects N.009-050-2016/1, N.002-200-2016/2-S and N.002-200-2016/2-N, proof of advertisements could not be provided or found on file during the audit resulting in irregular expenditure in prior periods, this amounted to R7.39m in the current year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

43. Irregular, fruitless and wasteful expenditure (continued)

d. Non-compliance with subcontracting requirements

Irregular expenditure amounting to R2.61m for the contract awarded to a joint venture (JV) (SAPR N0010401/1) was incurred in the current year. In the 2018 financial year, 50% of the JV contract was subcontracted to a partner of the same JV. Therefore, it could not be regarded as a subcontracting as the same partner to the JV is the subcontractor while benefiting from the main contract. The contract is not complete.

e. Expenditure not approved by duly delegated authority or national treasury

Project N.002-250-2009/2D2 was extended without obtaining the approval of the delegated authority. No expenditure was incurred in the current year.

In 2010, the Contracts Committee approved the award of contract N.001-200-2010/3 for R230 506 561 for the design, build and operate contract for the provision and operations of a communication system for the Gauteng Freeway Improvement Project (GFIP). The expenditure exceed original contract value by R41.05m of which R20m of this amount was duly approved by Contract Committee on 2014. The additional R15.10m should have been approved by National Treasury.

Prior approval was not obtained from National Treasury for additional expenditure exceeding R20m or 20% of the original contract value on projects N.001-270-2013/2 and N.001-290-2005/1. The amounts incurred in the current year were 11.21m and R0.65m respectively.

On project N.004-010-2016/1F, additional supervision fees were incurred onsite due to the main contractor not completing the project on time. These additional supervision fees were classified as irregular expenditure by MBAC due to these fees having been incurred onsite without first obtaining approval from MBAC for the release of contingencies to fund the cost. Substantial reasons explaining the trail of events that led to failure to obtain MBAC's approval in time have been submitted in the LCC memo. The amount incurred on this project was R1.35m in the current year.

Prior approval was not obtained from National Treasury for additional expenditure on project NRA X.0002-030-2013/1F. The Extensions were approved by CEO and MBAC. Original contract amount was R6 244 350, contingencies and CPA. The expenditure incurred thus far is R2.27 million. These variation orders should have been approved by National Treasury. In 2013 Contract Committee approved the award of contract N.001-290-2010/1 for R84 121 959 for Management, Operation and maintenance of the N1 North Traffic Controls Centres. Variation orders for R45.68 million were approved by the contract committee and MBAC. These variation orders should have been approved by National Treasury.

f. Unfair discrimination against bidders

There was an unfair advantage granted to the winning bidder on project R.524-010-2019/2F as the bidder was not disqualified for failing to submit the mandatory documents (letter from the bank at which he declares how he conducts his account and credit rating bank letter). Failure to provide the required bank letter with the tender submission shall render the tenderer's offer non-responsive. In addition, an inspection of the returnable schedules submitted by the winning bidder under technical proposal showed that the winning bidder was only registered with company intellectual property commission (CIPC) on 02 February 2017, just a month before the tender was advertised and therefore the winning bidder did not have the bank rating letter and thus could not submit as per the requirements. It's not clear in the National Treasury regulations whether or not this bid should be regarded as non-responsive. Irregular expenditure of R1.29m was incurred in the current year.

g. Non-compliance with s51 of the PFMA

On project X.002-086-2019/1F, the bid document was received and not evaluated and there was an unfair disqualification of the bidders.

On project X.002-097-2019/1F, there was non-compliance with section 51 of the PFMA and the conditions of tender relating to the validity of B-BBEE certificates. The current year expenditure relating to all the above-mentioned projects was R11.115m.

	2021 R '000	2020 R '000

43. Irregular, fruitless and wasteful expenditure (continued)

h. Unfair quotation and bidding process

Upon review of the Supply Chain Management processes, it was noted that there was unfairness in the awarding of a consulting engineering tender for the improvement of national road R578 section 1 from Nwamatatani to the R81 route. The amount incurred in the current year is R589 000.

i. Amount paid exceeds contract amount

There was over expenditure on legal contracts without appropriate approval by the delegated authority/official. Approved funds were insufficient due to unforeseeable developments in litigation/court processes. The expense incurred in the current year amounted to R8.54m.

j. Three quotations not obtained from the approved panel of services providers

Three quotations were not obtained for human resource recruitment services for R45 000. A single source was used and it was not motivated and properly approved even though the single source was from an approved panel of services providers.

h. Preference points calculated using amounts excluding VAT

In 2020 goods and services procured through quotations were evaluated in terms of preferential point calculations (80/20) using prices exclusive of VAT. The non-compliance did not always result in incorrect awards except for one contract (64611/1025/2020/SCM/01R) that should have been awarded to a different bidder. The expenditure incurred up to 31 March 2021 on this contract was R239 220.

i. Non compliance with tender pre-qualification criteria - bank letters and local content

On project X.002-088-2019/1F, there were inconsistencies in the application of tender requirements relating to credit ratings and bank details with expenditure of R774 108.

j. Deviations not approved by National Treasury or delegated authority

Security, environmental and other emergency work authorisations of Mtentu bridge was paid through Msikaba Bridge project contract. This was because of Mtentu bridge contract which is nearby Msikaba was terminated by the contractor without sufficient notice for SANRAL to follow normal procurement process. These emergency works were approved internally. However, no evidence of deviation approval for payments made from Msikaba to Mtentu project amounting to R22.10 million.

Fruitless and wasteful expenditure		
Opening balance	18 255	17 769
Interest charged as result of late payment of invoice within due dates	139	2
Overpayment of contractor	-	484
	18 394	**18 255**

31 March 2021

The fruitless and wasteful expenditure relates to interest and legal charges on project R.056-067-2014/1 as a result of the irregular expenditure. The amount was paid through a garnishee order. The contract was terminated by the contractor due to SANRAL defaulting on payments of previously rejected interim payment certificates. The interim payment certificates (claims) were rejected through internal processes. SANRAL wanted the matter to be adjudicated in court, however, the matter was concluded in court without SANRAL resulting in the garnishee order issued of which R138 811 relates to interest paid thereon.

This matter is still going to be presented to the loss control function for loss determination and action plan.

The South African National Roads Agency SOC Limited
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	2021 R '000	2020 R '000

43. Irregular, fruitless and wasteful expenditure (continued)

31 March 2020

The following is a summary of the irregular expenditure incurred during the prior period. Of the R342m disclosed above, R277m (66%) relates to irregular contracts identified in the current year, of which R174m is from a single contract. A loss control function to determine the causes of irregular expenditure and make recommendations is in place, its determinations are in progress. As at year end, there were no fraudulent and criminal acts found against employees and no material losses were regarded as recoverable from employees or perpetrators.

A register for irregular expenditure with detailed descriptions as required by National Treasury is available on request. As at year end, management confirms that:

i. There were no material losses and no irregular expenditure that was incurred through criminal conduct during the current financial year. An irregular expenditure resulting from criminal and fraudulent was identified and reported in 2017-18 for R7.9m (conflict of interest) the matter was investigated, disciplinary hearing was held and employee was dismissed. This matter was already closed when the new irregular expenditure framework came into effect.

ii. Thus no criminal or disciplinary steps have been taken as a consequence of such losses or irregular expenditure through criminal conduct. However, staff training, supply chain management capacity enhancement and disciplinary actions have taken place in cases where it was determined appropriate to prevent irregular expenditure caused by unintentional acts and lack of knowledge; and

iii. The loss control committee, through the Accounting Authority, is in process to apply for condonation from National Treasury for all the irregular expenditure where no loss was incurred and no criminal conduct was identified. There were no losses recoverable or written off during the current financial reporting period. The loss control committee assessed the accumulated irregular expenditure for loss determination.

The following is the summary of matters that resulted in the irregular expenditure disclosed above:

a. Awarding of preference points to tenders without original or certified Broad-based Black Economic Empowerment (BBBEE) certificates

On projects X.002-148-2016/1 & X.002-027-2013/1 bidders were appointed and contracted without an original or certified copy of B-BBEE certificates in the 2015-16 financial years. On projects N.001-058-2014/1, N.002-068-2015/1 & C.005-013-2013/1 it could not be determined whether the B-BBEE certificates submitted was original as the bidders received their certificates electronically from their verification agents. This resulted in expenditure in the current period of R36.15m. These contracts are still in progress.

b. Invalid tax clearance certificate

Contracts were awarded to bidders who did not either submit original tax clearance certificate or the tax certificate was not filed for audit review in 2014-15 financial year. These relate to projects N.002-200-2016/3, R.567-010-2016/1S and R.518-010- 2016/1S. Payments on N.002-200-2016/3 contract amounted to R1.26m during the current period while the other projects are now complete.

c. Contracts not advertised for at least five working days

The tender notices of winning bidders were not placed on the CIDB i-tender website for at least five working days. This relates to projects N.002-012-2016 and R.300-010-2016/2 which are not yet complete. The value of these amounted to R40.78m in the current period. On project N.009-050-2016/1, proof of advertisements could not be provided or found on file during the audit resulting in irregular expenditure in prior period. This project is now complete.

d. Non-compliance with subcontracting requirements

Irregular expenditure amounting to R2.92m for the contract awarded to a joint venture (JV) (SAPR N0010401/1) was incurred in current period. In 2018 financial year 50% of the JV contract was subcontracted to a partner of the same JV. Therefore, it

	2021 R '000	2020 R '000

43. Irregular, fruitless and wasteful expenditure (continued)

could not be regarded as a subcontracting as the same partner to the JV is the subcontractor while benefiting from the main contract. The total value subcontracted amounts to R48,783,840. The contract is not complete.

e. Splitting of bids (uncompetitive process followed)

Project X.002-046-2015/1 was unbundled into two contracts. The intended transformation requirements were not met as both contracts were awarded to one contractor. If the project had formed one contract, the CIDB requirement would have been a level eight and this successful contractor in this case would not have been able to tender on bigger contracts.

This practice resulted in the award being uncompetitive. In the current period the irregular expenditure from this project amounts to R373 338. The project is not yet complete.

f. Expenditure not approved by duly delegated authority

Project N.002-250-2009/2D2 was extended without obtaining the approval of the delegated authority. No expenditure was incurred in the current period. Additional expenditure on project R.056-067-2014/1 was not approved as per SANRAL's delegation of authority and National Treasury regulations. This amounted to R30.85m in the current period. The original contract memo for project N.002-223-2011/1F had an optional 3-year extension of contract and additional expenditure was approved by the internal delegated authority however no approval was obtained from National Treasury as the variation order was more than 20% or R20m. This amounted to R1.02m in current period. Prior approval was not obtained from National Treasury for additional expenditure exceeding R20m or 20% of the original contract value on projects N.001-270-2013/2 and N.001-290-2005/1. The amounts incurred in the current year were R28.93m and R55.16m respectively. The purchase of a building for administrative purposes for the Eastern Region's office was approved by the Engineering executive instead of the board. The irregular expenditure relating to this matter amounted to R4.76m in the current year.

g. Unfair discrimination against bidders

There was possible unfair discrimination in awarding a consulting engineering tender on project R.578-010-2020/1F due two letters with inconsistent information issued to bidders. The letters had different names of bidders who met the minimum qualifying score. It was also noted that there was omission of the financial offer for the winning bidder in the letters. SANRAL rectified the errors by issuing another letter to the bidders, however, auditors regarded these as unfair discrimination. Irregular expenditure from this contract amounted to R2.17m in the current period.

There was an unfair advantage granted to the winning bidder on project R.524-010-2019/2F as the bidder was not disqualified for failing to submit the mandatory documents (letter from the bank at which he declares how he conduct his account and credit rating bank letter). Failure to provide the required bank letter with the tender submission shall render the tenderer's offer non-responsive. in addition, an inspection of the returnable schedules submitted by the winning bidder under technical proposal showed that the winning bidder was only registered with CIPC on 02 February 2017, just a month before the tender was advertised and therefore the winning bidder did not have the bank rating letter and thus could not submit as per the requirement. Its not clear in the National Treasury regulations whether or not that should be regarded as the bid nonresponsive. Irregular expenditure of R1.44m was incurred in the current period.

h. Amount paid exceed approved contract amount

This amount relates to a contract for property management service. An additional amount of R173.58m was incurred in the current financial year without proper approvals from National Treasury. The original approved contract amount was R1.232bn on contract number NRA 1005/56000/2014.

The CURA contract had a fixed contract value of R1.24m which was a once off payment to purchase the software platform The over expenditure R140 120 paid relates to annual maintenance and license costs .

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

43. Irregular, fruitless and wasteful expenditure (continued)

i. Unfair quotation process

On three separate occasions, on projects ER 010/2019, ER 030/2019 and ER 0306/2019, quotations were accepted and approved without meeting the specifications of the related request for quotations. This amounted to R94 000 in the current year.

j. Invalid deviation of sole source provider

A sole service provider was justified on project ER SS 037/2019 even though there were other service providers accredited to provide such training. The expenditure incurred in this regard was R68 997 for the current year.

k. Additional scope not approved

On project N.002-270-2012/1, it was confirmed that R10m works on P709 road was not included in the bill of quantities and the original contract and work on P709 road was not approved by National Treasury, was included to meet the minimum subcontracting requirements as per the Treasury regulations. The expenditure incurred was R2.46m.

l. Non compliance with section 51 of PFMA

The irregular expenditure relates to non-compliance with section 51 of the PFMA: X.002-086-2019/1F -Bid document received and not evaluated and unfair disqualification of bidders, the irregular expenditure in the current year amounts to R52 075. X.002-088-2019/1F -Inconsistencies in the application of tender requirements relating to credit ratings and bank details, the irregular expenditure in current year amounts to R5 400. X.002-097-2019/1F -Conditions of tender relating to the validity of B-BBEE Certificates, the irregular expenditure in the current year amounts to R128 340.

Fruitless and wasteful expenditure

	2021 R '000	2020 R '000
Opening balance		17 769
Interest charged as result of late payment of invoice within due dates		2
Overpayment of contractor		484
		18 255

Late payment of invoice

A telecommunication invoice that was not paid on time due to disputes led to a payment of interest on the long outstanding invoice amount of R1673.

Overpayment of contractor

There was an overpayment of R483 935 on capital project N.002-270-2012/1. In terms of Clause 14.3 of the International federation of consulting engineers (FIDIC) Conditions of Contract for Construction, interim payment certificates contain estimates of work executed and in the final payment certificate on completion of the contract all quantities must be finalised and agreed and rectified. Unfortunately this contract was terminated before completion due to poor performance. Through reconciliation of the payment certificates and work done, an overpayment was noted. A claim against the liquidators of the contractor was lodged in 2019 and at 31 March 2020 a response was awaited.

The requirements of the new fruitless and wasteful expenditure framework, effective in November 2019, are dealt with in the same way as irregular expenditure. refer to 'irregular expenditure for progress on condonation, disciplinary and progress on loss control determinations'. At reporting date, the loss control committee was still determining the loss and recoverability of the fruitless and wasteful expenditure disclosed above. the delays were due to historical cases that where not finalised or closed when the new framework came into effect.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2021 R '000	2020 R '000

44. GOING CONCERN

We draw attention to the fact that at 31 March 2021, the entity's total assets exceeded its total liabilities by R340 152m, even though the entity had accumulated losses of R14 468m. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and settle liabilities and other commitments that occur in the ordinary course of business. The going concern assessment covers the period between 1 April 2021 and 31 July 2022, which is 12 months from the date of signing the audit report.

At 31 March 2021, SANRAL's total assets were R480 509m which are significant contributors to facilitating the movement of goods and services in the South African economy. The board acknowledges that current assets cover current liabilities.

Current assets of R31 604m include cash and cash equivalents of R29 340m of which R27 240m relates to non-toll unspent grant allocation. Current liabilities of R21 887m include the deferred grant income of R14 401m which relates to the unutilised portion of grant income which will not require actual cash settlement. Thus, the total cash in bank can fully settle current liabilities that require cash when they become due. The entity is therefore liquid.

SANRAL receives an annual grant from the fiscus mainly to fund its non-toll road portfolio. During the year under review the government grant was R20 400m, of which R3 130m was allocated to toll. This grant covers operational and capital expenditure on non-toll roads which comprise 87% of SANRAL's road network (operations). The annual budget allocation is expected to increase to R21 599m in 2022 and R21 279m in 2023 financial years. The non-toll portfolio has no liquidity concerns.

The toll portfolio income for the year under review has decreased to R3 706m. The COVID-19 lock down had a significant impact on toll revenue, with an estimated budgeted loss of R570m excluding GFIP loss of revenue. However, traffic returned to normal from lock down level 3. Management has acknowledged that the toll portfolio has liquidity concerns due to uncertainties on the continuation of the GFIP project. The 201km representing the GFIP road network, represents less than 1% of national road network or operations. Government has indicated and shown its preparedness to provide financial support to the GFIP (e-tolls) project while a solution is awaited. SANRAL has therefore included a budgetary transfer of R3 250m (excluding VAT) per annum over the medium-term expenditure framework (MTEF) ending 2022-23 financial year to cover the shortfall on e-tolls. Even though final approval of this additional transfer from Parliament is still awaited, based on past experience, management concludes that it is inevitable that it will be granted to ensure that the entity does not default. The material uncertainties on the future of GFIP as a going concern on its own, are expected to be mitigated through direct government support and feasible sources of financing (detailed below). The conventional toll plazas do not have liquidity or going concerns issues.The non-toll portfolio currently has a significant cash surplus of R27 240m, and is expected to remain cash positive well into the foreseeable future, due to the MTEF allocations and the spending patterns. As a single entity SANRAL has significant cash reserves and access to funds to remain a going concern into the foreseeable future.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

44. Going concern (continued)

Funding actions plans on the toll portfolio:

As at 31 March 2021 cash flow projections currently show that SANRAL's cash reserves for the toll portfolio remain cash positive until February 2022. These cash flow projections showed an expected deficit of R1 513m from March 2022, but it excludes the expected additional grant of R3 250m, which has been budgeted for, subsequent funding actions of R1 237m and the annual GFIP grant of R654m, as well as the expected rollover of R1 200m Promissory Notes in February 2022.

After the assessing of the quality (government backed) of the asset against the return it remains highly attractive to investors and expectation is that the investors will roll over the Promissory Notes again. SANRAL plans to refinance R3 650m three year floating rate notes in July 2022. It is therefore expected that SANRAL will have positive cash flows until July 2022.

SANRAL has R8 740m available under R31 910m government guaranteed DMTN programme, In April 2021 SANRAL raised R1 237m through the issuance of R567m HWAY34, R170m HWAY33 and R500m HWAY30 bonds. The appetite at the long end of the market, reduces the refinancing risk and allows for the pre-funding of shorter dated maturities.

There is sufficient appetite in the market and adequate available government guarantees and borrowing limit to consider further issuance as required.

Conclusion

From the evidence of approved transfers of funds from non-toll and toll in the past years, the separation lines between toll and non-toll are less severe, even though legislative requirements must still be followed. Government views operations and management of national roads as a single mandate. Therefore, the assessment of the going concern and the financial status of the entity is done as a single entity.

Even though a significant portion of SANRAL's debt is guaranteed by government, government has elected on several occasions to avert a default by providing funding to SANRAL, pending the outcome of the e-toll decision by Cabinet. It is therefore assumed that Government will continue to provide financial assistance for the foreseeable future unless a final policy decision is made to direct the future of road funding. Furthermore, SANRAL may not be placed under judicial management or in liquidation except by an act of Parliament (section 10 of the South African National Roads Agency and National Roads Act). Although there are material uncertainties on the toll portfolio, there are no significant doubts about going concerns of SANRAL as a whole after considering the potential mitigation actions and the significant cash reserves.

The Board therefore supports management's assessment that SANRAL will remain a going concern in the foreseeable future. The Board is fully aware of the liquidity risk it faces in the short term and is actively engaging with government to resolve the matter.

45. EVENTS AFTER THE REPORTING PERIOD

On 4 May 2021, Global credit rating (GCR) issued a credit rating announcement, where it downgraded SANRAL's national scale issuer ratings from A(ZA) to A-(ZA) and A1(ZA) to A2(ZA) for the long and short term respectively – outlook Negative. Concurrently, the long-term international scale issuer rating assigned to SANRAL was affirmed at B+ – outlook Negative.

The downgrade on SANRAL's national scale credit ratings reflects the high refinancing requirements over the medium term, coinciding with a lesser assurance of financial support from the National Government for State Owned Companies because of a weakened fiscal position. The agency indicated the rating could improve if there is a resolution to the GFIP toll payment issues, that would allow SANRAL to move towards financial self-sustainability.

The GCR report/announcement recognises SANRAL's critical role in facilitating the economy, with its position mandated and protected by legislation. Support has been demonstrated through continued disbursement of budgeted grants and unearmarked fund transfers. Accordingly, the current rating is premised on the expectation that SANRAL will be able to achieve large debt refinancing on an ongoing basis over the medium term.

On 13 May 2021, the Minister of Transport appointed Mr E Makhubela to the Board, to replace Ms Halstead as the representative from National Treasury.

Authorisation was granted on 6 July 2021 to issue HWAY30 and HWAY34 with R300m and R700m respectively on the R31 910m DMTN programme. The issuance would be pre-funding to boost SANRAL's liquidity.

Between 1 June 2021 and 11 August 2021, National Treasury condoned R9 957m of the R10 887m irregular expenditure brought forward from previous financial years.

Between 12 and 17 July 2021, there was widespread unrest experienced in the KwaZulu-Natal and Gauteng provinces which caused extensive damage to SANRAL's toll plazas and road networks in KwaZulu-Natal. Traffic movement was impacted due to the closure of major toll routes on N2 and N3, which ultimately resulted in toll revenue losses. The total estimated cost and loss of income to SANRAL amounted to R61m.

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Registration Number: 1998/009584/30
RP173/2021
ISBN: 978-0-621-49495-2

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