

Annual Report 2003



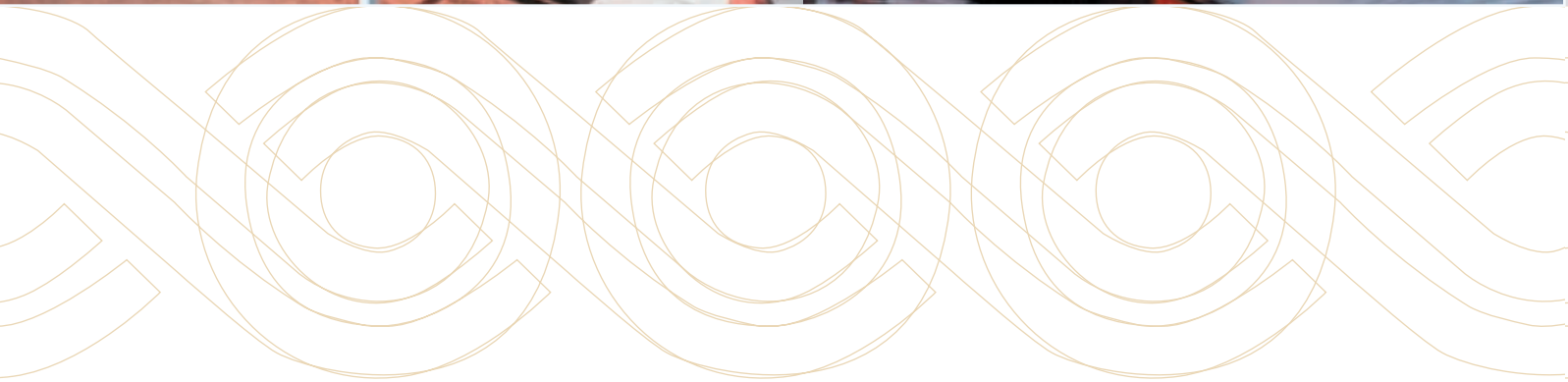
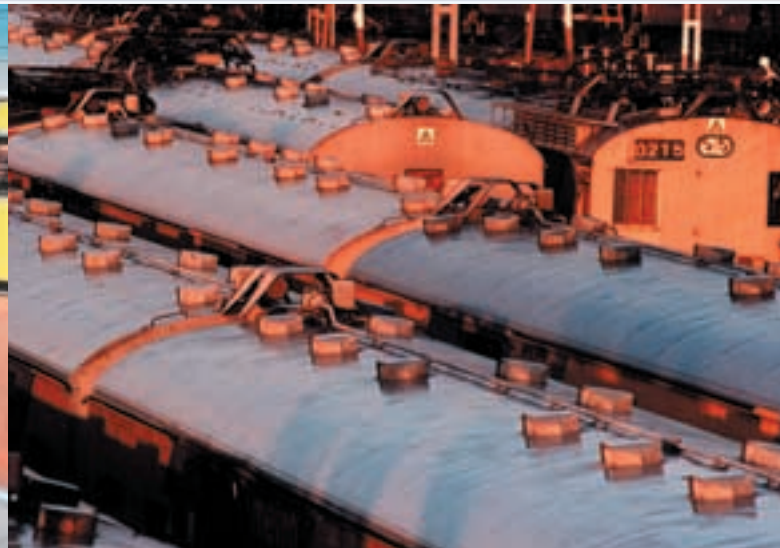
SOUTH AFRICAN
RAIL COMMUTER
CORPORATION LTD

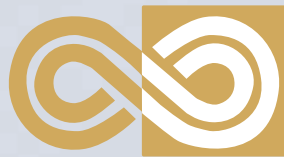
Vision

To establish rail as the preferred mode of public transport and to be the recognised champion in ensuring the provision of quality commuter rail services for all Transport Authorities in South Africa.

Mission

To manage the assets and funding of the rail commuter business on behalf of government, and to ensure the efficient and effective local delivery of commuter services, within National Land Transport Policy directives and appropriate regulatory regimes.



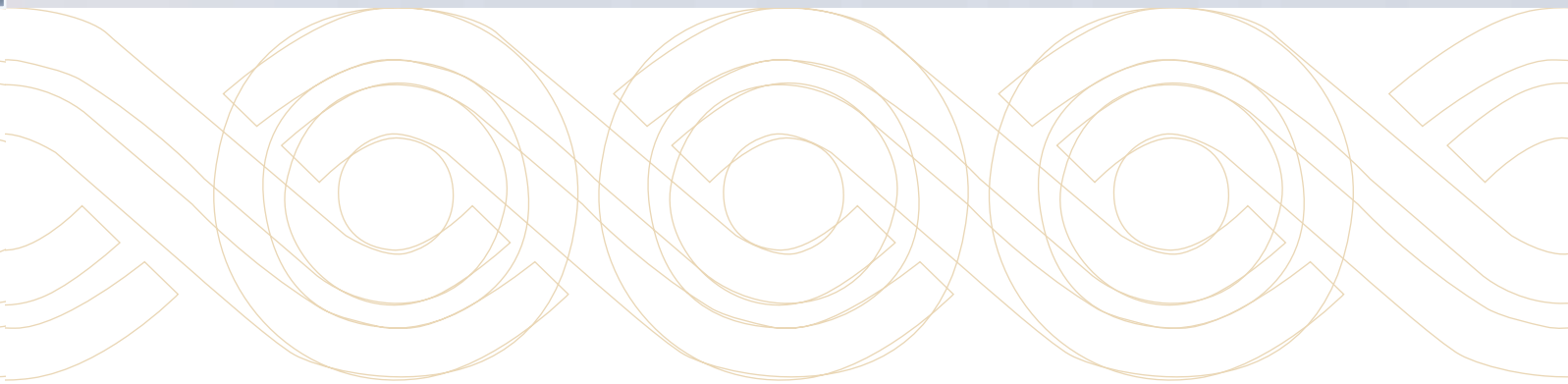


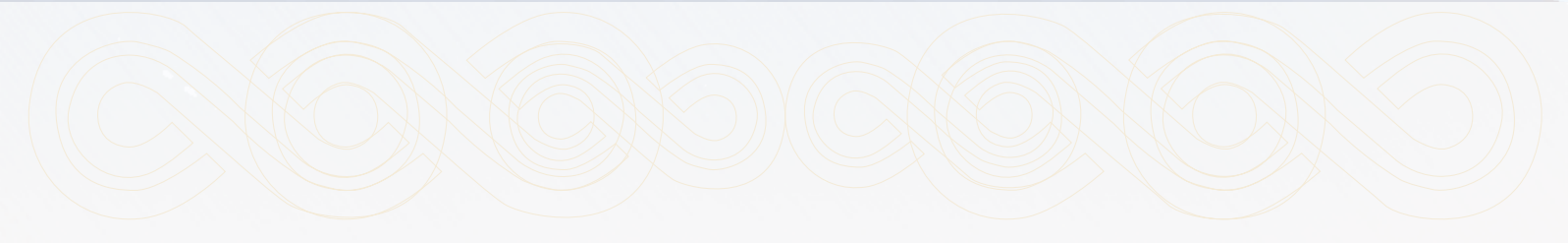
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RP 154/2003

ISBN: 0-621-34502-4



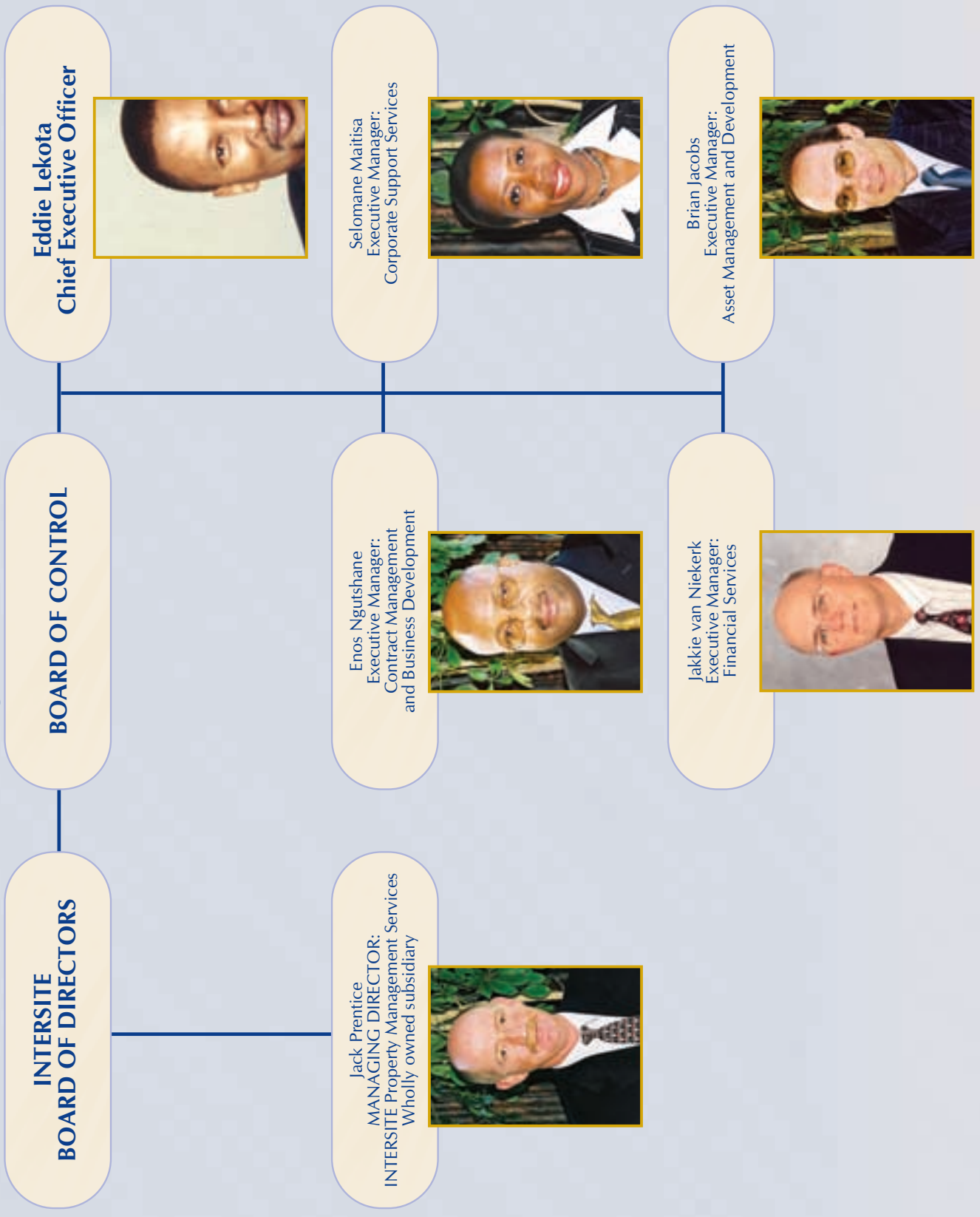


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Management Board



Chairman's Report



Peter Malungani
Deputy Chairman

Commuter rail is the essential mode of public transport to many South Africans and it serves mainly people at the lower level of income because of its affordability. Over two million passengers use the commuter rail service to and from work daily. Included in this figure are a significant number of students who make use of the service to commute to and from school. The government's aim is to make commuter rail the preferred mode of public transport. This is a challenge as well as an opportunity for the Corporation to provide a safe and pleasant rail-commuting environment and to the operator, Metrorail, to provide a reliable and punctual service in order to attract new commuters.

The Corporation has begun working towards the government goal through the refurbishment of rolling stock, stations and signalling. A result is operational improvements during the 2002/2003 financial year with punctuality of the service improving slightly from 89,15% in 2001/2002 to 90,32% in 2000/2003 and train cancelled versus trains scheduled decreasing from 3,48% in 2001/2002 to 1,61% in 2002/2003.

REVIEW

The Corporation continued to improve its management of the negotiated concessioning agreement with Metrorail in the 2002/2003 financial year. Plans that were put in place in 2001/2002 financial year to ensure the better management of the agreement were successful during the past year.

Government provided the Corporation with an operational subsidy of R1 545,9 million in the 2002/2003 financial year (2001/2002 R1 366,3 million) and a capital subsidy of R663 million (R490, 2 million). SARCC spent R525, 1 million in upgrading infrastructure, refurbishing rolling stock and developing stations during the year.

The Corporation completed the first lot (176) of refurbished coaches during the year under review. These coaches were put in service in the Western Cape and Gauteng regions. This has undoubtedly improved the commuting experience of passengers in these regions albeit in a small scale. Commuter rail is still plagued by the ageing rolling stock. This affects the reliability of the service. Notwithstanding the improvements in punctuality and train cancellations, passenger journeys decreased by 0,39% to 466,9 million (2001/2002: 4.60% decrease) and the ageing rolling stock contributed about 25% of the decrease in passenger trips during the year under review.

Fare evasion and vandalism continue to badly affect the endeavours to manage the business efficiently by adding to the already increasing cost of running the business. Over 30 coaches were burnt at various staging yards during the 2002/2003 financial year. This put a strain on the availability of coaches as well as the insurance premium.

Safety and security remains important to the Corporation in ensuring the provision of services to commuters. Disappointingly, four train accidents occurred during the 2002/2003 financial year in which 36 passengers were killed and 533 injured. The Corporation, together with Metrorail and Spoornet, instituted an internal inquiry into the accident and Cabinet established a Board of Inquiry to investigate these accidents. The outcome of these reports indicated that all accidents, which occurred in Charlottedale, Lawley, Muldervlei and Umbogintwini, were caused by human error.

Metrorail, with input from SARCC, has responded to these reports by putting measures in place to address the human resources elements that may contribute to accidents in the future.

TRANSFORMATION

In its guide to transform the Corporation during 2002/2003, the Board approved an audit of the Corporation and Intersite's Human Resources systems to determine if the systems were up to date and to determine inconsistencies (if any) in implementing the systems over the past years. Subsequently, proper measures were put place to address problems identified and to ensure equity.

CORPORATE GOVERNANCE

The Board, through its Audit Committee, sanctioned a forensic audit into the books of the Corporation and Intersite to determine the effectiveness of their Fraud Prevention Plan and to verify that both organisations comply with the PFMA and corporate governance. A report will be completed in the following financial year.

CHALLENGE

The deteriorating condition of rolling stock continues to be a challenge to the industry. Notwithstanding the increased capital funds to continue with the refurbishment programme during the financial year, the state of most coaches has become crucial and innovative ways of funding rolling stock has become imperative.

THE FUTURE

The negotiated agreement between SARCC and Metrorail came to an end on 31 March 2003. Due to government's decision not to pursue a full-scale concessioning of the commuter rail services, the agreement was extended on a month to month basis until 31 March 2004.

The institutional reform matter was on the agenda of both the National Ministries of Transport and Public Enterprises. The Departments, together with Transnet and SARCC, prepared a cabinet document on the possible merger of key players in the passenger rail transport into a single entity. The document is currently receiving attention. Nevertheless, the Corporation continues to execute its mandate as stated in the Legal Succession Act. The responsibilities and role of the

Corporation will certainly change as the industry reforms.

THANKS

I thank the Minister of Transport, Dullah Omar, for his encouragement and guidance. It has been a pleasure to work with the Minister of Transport and his Department.

I record my appreciation to the Corporation's CEO, Eddie Lekota, (previously the Chairman of the Board of Control) who was appointed during the year for his relentless efforts in steering the business forward. To Intersite's Managing Director, Jack Prentice, thanks for his contribution and to the Executive Managers of SARCC and the staff, thanks for their hard work in striving to achieve the mission of the Corporation as mandated by the Board.

To the Chief Executive Officer of Metrorail, Honey Mateya, his executive management and staff, my thanks for continuing to provide the service and working hard in ensuring that the people of South Africa are transported to and fro throughout the commuter rail system.

The Board of Control continues to provide invaluable input and advice. I acknowledge their effort in addressing the challenges facing commuter rail. I thank the members of the Board for their services during this past year.

The term of office of the current Board of Control expires at the end of September 2003 and I will be leaving the Board before the end of term. The Minister of Transport has accepted my resignation from the Board. I have served the Corporation and Intersite as a Non-Executive Board member for some nine years as well as the Deputy Chairman of SARCC for over a year.

The commuter rail business has been both challenging and exciting at the same time over the years. The Corporation and Intersite have successfully overcome the many difficulties and achieved a lot over the years.

Peter Malungani
Deputy Chairman

CEO's Report



Eddie Lekota
Chief Executive Officer

The 2002/2003 financial year has been very challenging for the commuter rail industry. Among other things, there were significant achievements on one side, such as the completion of phase one of the rolling stock refurbishment programme which saw a delivery of the final 176 upgraded coaches; and major incidents on the other side, such as the bomb blast on the Soweto rail line in October 2002.

The Corporation ensured the provision of commuter rail services to passengers as per its mandate and delivered on its objectives in spite of the difficulties it encountered during the year.

I was appointed the CEO towards the end of the financial year under review and handed over the Chairmanship of the Corporation, which I held until December 2002, to Peter Malungani, the Deputy Chairman. Upon taking over as CEO, the Corporation was in a process of implementing various transformation initiatives, inclusive

of the forensic audit, which were sanctioned by the Board, and the negotiated concessioning agreement between the Corporation and Metrorail was about to expire on 31 March 2003.

SERVICE PROVISION

The Corporation, through Metrorail, provided 465 million passenger trips in the six metropolitan areas where commuter rail services are provided during 2002/2003 compared to 467 million trips in 2001/2002. About 25% of this decline in passenger journeys was a result of the poor condition of rolling stock. A lot still needs to be done to improve the quality of service provided to commuters. Despite this set back, punctuality and train cancellations improved by 0,17% and 3,48% respectively during the financial year.

The Corporation received an operational subsidy of R1 545,9 million (2001/2002: R1 366,3 million) in 2002/2003 and the capital subsidy of R663 million (2001/2002: R490,2 million). The Corporation spent additional funds on heightening the security in and around the commuter rail system after the Soweto rail line bomb blast to protect commuters and the infrastructure in all regions where commuter rail services are provided.

INFRASTRUCTURE AND ROLLING STOCK

One of the highlights of the year was the completion of the programme to refurbish 176 coaches in the Western Cape and Gauteng regions. The Corporation delivered as promised in 2000 that the project would be complete in early 2003. The ageing rolling stock is still a major concern for both the quality of service provided and the safety of passengers in future. The service is currently experiencing an increased number of rolling stock breakdowns on a daily basis, especially in the Wits region, where some of the coaches are over 30 years old.

The Corporation is augmenting the refurbishment programme (which is continuing) with the General Overall (GO) programme. The GO programme would be stepped up in the following financial year to help reduce the cycle from the current 12-year to a 9-year cycle within three years.

A total of R80 million was spent on infrastructure improvements in 2002/2003. About R46 million was spent on the refurbishment of the signalling system. The signalling upgrade programme also focuses on a technology that will improve the scheduling of trains. R21 million was spent on improving the perway, R12 million on electrical and R2 million on bridges, structure and telecommunications.

Interiste, SARCC's wholly owned subsidiary, continued to modernise, refurbish and to commercialise stations. Income earned from the SARCC's property portfolio and other three portfolio that Intersite is managing, increased to R167,9 million (2001/2002: R150,8 million) contributing to the reduction of the subsidy required from government.

Two major station developments, among others, were completed during the year, namely the R27 million new Stock Road station in the Western Cape and the R14 million Station B in Mabopane. The Denneboom modal integration project and the station upgrade in Mamelodi were also completed.

SAFETY AND SECURITY

The four train accidents that happened in 2002/2003 are regrettable. The investigations and an inquiry into these accidents indicated that human error was the cause. The reports specified recommendations that would ensure that similar accidents do not happen again. Subsequent to the report, SARCC, Metrorail and Spoornet formed a safety and security committee to implement the recommendations.

The Soweto rail line bomb blast was an incident that shocked not only the rail industry, but also the country at large. The speedy response by the government and the deployment of more security personnel in the rail system reassured passengers of their safety.

Vandalism of the rail assets is still a cause of concern. The burning of coaches increased during the year under review. There were four such incidents during the year and over 30 coaches affected. These incidents render the safe and punctual performance of the rail system virtually impossible.

STRATEGIC AND BUSINESS CHALLENGES FOR THE CORPORATION

BEE

The Corporation established a Procurement department in 2000/2003 to ensure the achievement of the BEE target stipulated in the policy, which was conceived during the previous year. The Corporation improved on the 8% total expenditure on BEE during the year under review. The target for 2003/2004 is at least 25% BEE participation with emphasis on women's involvement in the mainstream of the rail business.

EMPLOYMENT EQUITY

The Corporation undertook an audit of the Human Resources systems with the aim of addressing inequality in the implementation of the systems as well as to update and upgrade relevant ones. The project was successful and it made sure that all employees were treated equally and within the policies of the Corporation.

The Board of Control approved a new corporate structure in line with the business objectives. The new structure will also address the Corporation's demographics in line with the Employment Equity Policy. The structure will be implemented in the following financial year.

INSTITUTIONAL FRAMEWORK

The key challenge facing the passenger rail industry at present is the institutional framework. During 2002/2003 the Department of Transport and the Department of Public Enterprises took steps forward to address this matter together with SARCC and Transnet. The Corporation continues to ensure the provision of commuter rail services while cognisant of the impending merger of rail organisations in the near future and the possible change of its role.

FUTURE

My priority in the following year would be to ensure prudent management of the business to make the current service attractive, especially the capital investment

aspect in order to realise more value for our funds and to heighten safety and security measures already in place to make the system safer.

The Corporation will forge closer links with transport authorities to take our mission of 'providing rail at the request of any sphere of government in the public interest' to a higher level. Expansion of the rail network and service in general in line with integrated transport plans and integrated development plans will be the area of focus with particular emphasis on both the rural and economic developments. The Corporation would be restructured accordingly in the following year to enable the realisation of this particular goal.

I regard public transport as the backbone of the economy of any country. The current significant amount of investment in rail turns this mode into the central nerve of the public transport; therefore, making rail the preferred mode of public transport would be a focus of the Corporation.

THANKS

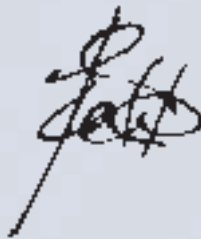
I thank the management team and staff for their co-operation and effort in achieving the objectives of the Corporation under the challenging circumstances during the year. I also thank the Board of Control their support and direction in managing the business. My heartfelt appreciation to Peter Malungani, the Deputy and Acting Chairman of the Corporation, for his invaluable broader business insight which made my management of the

operations a pleasant encounter. In my capacity as the former Chairman, I also thank him for his support and direction as Deputy Chairman.

I acknowledge the contribution of my predecessor, the Acting CEO, Ben van der Ross, who has tirelessly served the Corporation and Intersite (as Chairman). I salute Ben for the passion and dedication to the rail business for more than ten years also in his capacity as the Non-Executive member of the Board of Control.

To the Managing Director of Intersite, Mr Jack Prentice, and his team, thanks for their contribution to the business. Lastly, but not least, I thank the CEO of Metrorail, Honey Mateya, and his team for providing the commuter rail service to the South African public.

Special thanks to the Minister of Transport, Dr Dullah Omar, who guided and supported me when I was the Chairman of the Corporation in the past year. I extend my gratitude to the Acting Director General of the Department of Transport, Prof. Medard Rwelamira, and to the Deputy Director General, Jerry Makokoane.



Eddie Lekota
Chief Executive Officer



ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2003



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REPORT OF THE AUDITOR – GENERAL



AUDITOR - GENERAL

**REPORT OF THE AUDITOR-GENERAL TO THE EXECUTIVE
AUTHORITY ON THE GROUP FINANCIAL STATEMENTS OF THE
SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED FOR
THE YEAR ENDED 31 MARCH 2003**



**SOUTH AFRICAN
RAIL COMMUTER
CORPORATION LTD**

RP 154/2003

ISBN 0-621-34502-4

REPORT OF THE AUDITOR-GENERAL TO THE EXECUTIVE AUTHORITY ON THE GROUP FINANCIAL STATEMENTS OF THE SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED FOR THE YEAR ENDED 31 MARCH 2003



1. AUDIT ASSIGNMENT

The group financial statements as set out on pages 21 to 36, for the year ended 31 March 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 28(3) of the Legal Succession to the South African Transport Services Act, 1989 (Act No. 9 of 1989). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the South African Rail Commuter Corporation Limited at 31 March 2003 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended.

4. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 Matters affecting the group financial statements

4.1.1 State compensation

The State compensation, which is received annually to finance the operational deficit of the corporation, is not guaranteed. State compensation received in respect of the operating subsidy for the 2002-03 financial year amounted to R1 545,919 million, which represented 77.1 per cent of the total operational expenditure of the corporation. Under these circumstances uncertainty exists about the corporation's ability to continue operations without the curtailment of services.

Furthermore, the borrowing powers of the corporation were withdrawn in terms of the South African Rail Commuter Corporation Limited Financial Arrangements Act, 2000 (Act No. 64 of 2000). Adequate subsidisation is therefore regarded as fundamental to ensure that the

REPORT OF THE AUDITOR-GENERAL TO THE EXECUTIVE AUTHORITY ON THE GROUP FINANCIAL STATEMENTS OF THE SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED FOR THE YEAR ENDED 31 MARCH 2003

mandate of the corporation, as required by government, is executed.

4.1.2 Year-end adjustments

Year-end adjustments amounting to R28,815 million were made during the period 1 April 1997 to 31 March 2003 in respect of payments to Intersite Property Management Services (Pty) Ltd (IPMS), a wholly owned subsidiary of the corporation. The main purpose of the adjustments was to eliminate the profit made by the subsidiary, a taxable enterprise. It is currently not clear whether the South African Revenue Services will disallow the adjustments made in terms of section 103 of the Income Tax Act, 1962 (Act No. 58 of 1962) for both Value Added Tax and Income Tax purposes.

The corporation is currently in the process of obtaining exemption in terms of section 10(1)(cA) of the Income Tax Act.

4.1.3 Supporting documentation

Included under accounts payable, amounting to R597,749 million, were accruals to the amount of R0,879 million, for which adequate supporting documentation could not be obtained.

4.2 Matters not affecting the group financial statements

4.2.1 Corporate governance

The under-mentioned non-compliance with the Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended, and the King Code on Corporate Governance occurred during the 2002-03 financial year:

- a) Contrary to the audit committee charter of the corporation, the audit committee consisted of only two members during the 2002-03 financial year. This composition was also not condoned by the King Code on Corporate Governance. Furthermore, from June 2003 the membership

of the audit committee decreased to one member.

- b) The register for the declaration of interest in related parties as well as the register for gifts received were not updated since September 2001. This matter contributed to the suspension of a staff member as referred to under paragraph 4.2.2.

4.2.2 Forensic investigation

A forensic investigation was conducted at the request of the board to investigate potential risk areas brought to light by the internal audit division. The investigation was conducted for the period 1992 to 2002 and progressed to the point where one staff member was suspended. Once this matter has been finalised a report will be issued by the Forensic Auditors.

4.2.3 Disclosure of leases

Due to the unique nature of the lease agreements the corporation did not consider it to be practical to disclose lease income as required by generally accepted accounting practice.

5. APPRECIATION

The assistance rendered by the staff of the South African Rail Commuter Corporation during the audit is sincerely appreciated.



J.A.C. DU PLESSIS
for Auditor-General
Johannesburg
31 July 2003

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2003

The Board of Control presents the group financial statements of the South African Rail Commuter Corporation (SARCC) for the year ended 31 March 2003.

1. Nature of the Business

The core functions of the Corporation are:

- 1.1. To ensure that, at the request of the National Department of Transport or any sphere of government, rail commuter services are provided in the public interest and to promote rail as the primary mode of mass commuter transportation and,
- 1.2. To manage and develop commuter rail assets, which includes property, land (in and around stations), rolling stock and infrastructure.

The Corporation ensures the provision of commuter rail services through Metrorail, (a business unit of Transnet) under a negotiated concessioning agreement. Metrorail's activities include the operation of the trains, the daily maintenance of rolling stock and infrastructure, the collection of and accounting for the fare revenue collected from passengers, and the provision of security relating to the service.

The property portfolio of the Corporation is managed by Intersite Property Management Services (Pty) Ltd (a wholly owned subsidiary of the SARCC). Intersite performs property management services, both in respect of property owned by the Corporation and property owned by Transnet, which are used for the commuter service. Its activities include maintenance of the properties, improvements to the properties, property developments, letting of the properties and collection of rentals.

2. Vision, Mission and Objectives of the Corporation

2.1. Vision

To establish rail as the preferred mode of public transport and to be the recognised champion in ensuring the provision of quality commuter rail services for all Transport Authorities in South Africa.

2.2. Mission

To manage the assets and funding of the rail commuter business on behalf of government, and to ensure the efficient and effective local delivery of rail commuter services, within National Land Transport Policy directives and appropriate regulatory regimes.

2.3. Objectives

- To manage the negotiated concessioning and other contracts relating to rail commuter services and infrastructure.
- To be an effective and efficient concessionor by ensuring the provision of safe, reliable, affordable, clean and punctual rail commuter services.
- To ensure value for money in the utilisation of the rail commuter subsidy.
- To plan, facilitate and ensure optimal rail commuter infrastructure expansion.
- To ensure optimal utilisation of funds and rail commuter assets.
- To enhance the Corporation's assets by facilitating investment from external sources.
- To ensure the provision of adequate funds, both capital and operational, in order to sustain the long-term viability of the business.

3. Overview of the achievement of the Corporation's business objectives

- *To manage the negotiated concessioning agreement with Metrorail and other contracts relating to rail commuter services and infrastructure.*

3.1. Management of the contract

The four-year concessioning agreement with Metrorail, which was effected on 1 April 1999, expired on 31 March 2003. It has been extended on a month-to-month basis for a maximum period of one year, i.e. until 31 March 2004.

3.2. Mutual asset rental contracts

The contract between SARCC and Transnet, trading as Spoornet, includes a penalty structure for non-provision of access to infrastructure non-compliance to agreed safety measures for all operators on the same infrastructure.

- *To be an effective and efficient concessionor by ensuring the provision of safe, reliable, affordable, clean and punctual rail commuter services.*

3.3. Safety

SARCC has put more effort and resources in the management of safety of commuters and the security of assets by investing funds in improving the safety of all operational facilities, namely rolling stock, signals, perway and stations.

The Corporation records all incidents in and around the commuting areas distinguishing between crime related and operational incidents.

There were four train accidents during 2002/2003, in Charlottedale, Umbogintwini, Muldersvlei and Lawley. A total number of 36 passengers lost their lives in two of the accidents (26 at Charlottedale and 10 at Muldersvlei) and 533 passengers were injured (Charlottedale 196, Umbogintwini 63, Muldersvlei 182 and Lawley 92). SARCC, together with Metrorail and Spoornet, instituted commissions of inquiries into the accidents.

Both the Minister of Transport, Dr Abdulah Omar and Minister of Public Enterprises, Mr Jeff Radebe, instituted a Board of Inquiry into the Charlottedale accident. The outcome of these inquiries indicated that all accidents were caused by human error.

Commuter rail safety remains a priority of the Corporation and the results achieved during the financial year under review testify to efforts by both the Corporation and Metrorail to provide a safer means of transport for commuters.

3.4. Reliability and punctuality

Train punctuality improved slightly from 89,14% in the

year 2001/2002 to 90,32% in 2002/2003 and passenger trips decreased from 467 million in 2001/2002 to 465 million in 2002/2003. The poor condition of the rolling stock contributes about 25% of the decrease in passenger trips.

Trains cancelled versus trains scheduled decreased from 3,48% in 2001/2002 to 1,61% in 2002/2003, against the acceptable norm of between 0,30% and 1,00%.

- *To ensure value for money in the utilisation of the rail commuter subsidy.*

Commuter rail provides affordable means of public transport to mainly the lower income groups of our society. The Corporation strives to keep the service affordable to commuters. Annual fare increases proposed by Metrorail are discussed and sanctioned by the Corporation and approved by the Minister of Transport.

- *To plan, facilitate and ensure optimal rail commuter infrastructure expansion.*

3.5. Infrastructure upgrade

A total of R80 million was spent in upgrading signalling (R46 million), perway (R21 million), electrical (R12 million) bridges, structure and telecommunication (R2 million). Of the R46 million used to replace the old signalling, R18 million was spent in Bellville and R10 million in the Tshwane region.

3.6. Rolling Stock Refurbishment

SARCC completed the first phase of its rolling stock upgrade programme during 2002/2003, which included 176 coaches at a cost of R400 million. The project, which began in the 2000/2001 financial year, saw Gauteng and the Cape Town regions getting 88 refurbished coaches each.

The first train set of the Cape Town refurbished coaches, were unveiled by Minister Omar in May 2002 at the Cape Town Station.

The SARCC's active national fleet is made up of 4 150 class 5M2A coaches, which include motor and trailer coaches countrywide. There are only 108 new

generation vehicles, all running in Cape Town, which are made up of the 6M and 8M coaches manufactured in the 1980's.

When first purchased, the 5M2A coaches underwent a General Overhaul (GO) every seven years. This period, due to financial constraints, will approach 16 years if additional funds are not made available. This may result in continued deterioration and an increased safety risk.

The SARCC is therefore implementing an active programme to improve the state of commuter rail rolling stock. This programme includes a plan to bring the GO of trains to a 12-year cycle within the next three years and thereafter to nine years, as well as improvements in the GO process. The plan, however, is subject to availability of funds. During a GO, a class 5M2A coach has all its components removed, renovated or replaced and the coach is returned to its original state.

- *To ensure optimal utilisation of funds and rail commuter assets.*
- *To enhance the Corporation's assets by facilitating investment from external sources.*

3.7. Funds

The Corporation managed to ensure the provision of commuter rail within its limited budget allocation.

3.8. Commuter rail assets

The Corporation rented portions of its infrastructure to Spoornet during the year and earned R60 million (2000/2001: R60 million) in rental income.

3.9. Property development

Income earned from Intersite activities increased to R167, 9 million (2001/2002: R150, 8 million). Once again, Intersite contributed substantially to the total income of the Corporation to help reduce subsidy required to run the business.

- *To ensure the provision of adequate funds, both capital and operational, in order to sustain the long-term viability of the business.*

3.10. Capital Funds

The total investment of capital to the value of R525, 1 million (2001/2002: R454, 5 million) was made during the year under review. These funds were expended mainly towards the refurbishment of the rolling stock, infrastructure upgrades and station developments.

3.11. Operational Funds

The Corporation received an operational subsidy of R1 545,9 million for the 2002/2003 financial year (2001/2002: R1 366,3 million).

4. Financial Position and Results

4.1. Operational Results

Total Group income amounted to R277,4 million compared to R242,6 million in 2001/2002.

Group operating expenditure increased by 6% (2001/2002: 8% increase).

4.2. State Compensation

During the year, an amount of R1 545,9 million (2001/2002: R1 366,3 million) was received from the State towards the financing of operations. This reflects an increase of 13% (2001/2002: 0,44%) decrease. The subsidy for capital expenditure was R663 million (2001/2002: R490, 2 million)

4.3 Financial performance

The following amounts were not included in the diagram as it represents items of a non-cash nature:

Revenue

Amortisation of capital subsidies and grants received in the amount of R 46,7 million.

Expenditure

Depreciation in the amount of R227, 8 million
Loss on sale of assets of R 0,9 million.

The actual shortfall was 58,39% less than the budgeted shortfall due to a 0,28% additional income and a 2,64% saving on expenditure. The overspending of 84,96% in insurance claims relates to claims on rail commuter accidents, (Refer note 3.3).

PERFORMANCE FOR THE 2002/2003 FINANCIAL YEAR

	Budget R'000	Actual R'000	Variance %
Total Income	230,000	230,636	0.28
Property management	170,000	167,892	(1.24)
Infrastructure assets rental	60,000	60,000	-
Sundry income	-	2,744	-
Less: Total Expenditure	1,861,000	1,811,957	2.64
Property portfolio expenses	127,085	122,374	3.71
Operator and maintenance expenses	1,544,000	1,449,115	6.15
Other expenditure	32,205	35,126	(9.07)
Personnel cost and directors emoluments	58,710	67,452	(14.89)
Insurance claims	46,000	85,083	(84.96)
Insurance premiums	53,000	52,807	0.36
Operating Shortfall	(1,631,000)	(1,581,321)	3.05
State Compensation	1,545,919	1,545,919	-
Shortfall	(85,081)	(35,402)	58.39

5. Performance Information

Service provided

The Corporation, through its operator Metrorail, provides rail services in the four major centres, namely Wits (Johannesburg), Northern Gauteng (Pretoria), Western Cape (Cape Town) and KwaZulu-Natal (Durban) as well as Port Elizabeth and East London.

The length of each network, together with the number of stations utilised on each region, is as follows:

Regions	Network (km)	Stations
Wits	360	167
Northern Gauteng	120	78
Western Cape	370	102
KwaZulu-Natal	208	102
Port Elizabeth	43	11
East London	<u>49</u>	<u>18</u>
Total	<u>1 150</u>	<u>478</u>

Passenger journeys

The table below shows the number of passenger journeys travelled during the year under review compared to the previous year:

Passenger journeys (millions)	2002/2003	2001/2002	Variance %
Wits	175,788,190	172,480,922	1.92
Northern Gauteng	75,345,151	80,150,930	(6.00)
Western Cape	154,847,064	152,296,614	1.67
KwaZulu-Natal	51,785,051	53,744,104	(3.65)
Port Elizabeth	1,802,586	2,054,260	(12.25)
East London	5,558,006	6,239,355	(10.92)
Total	<u>465,126,048</u>	<u>466,966,185</u>	<u>(0.39)</u>

Passenger journeys decreased by 0.39% (2001/2002: 4,6% decrease).

7. Subsidiaries:

The Corporation's interest in subsidiaries is summarised as follows:

Name	% Shareholding	Issued Capital	Amounts owing by subsidiaries to companies	Attributable share of net profit /(loss)
		R'000	R'000	R'000
Intersite Property Management Services (Pty) Ltd				
Ordinary shares				
2001/2002	100%	2	51 493	(757)
2002/2003	100%	2	56 363	(1 607)

8. Corporate Governance

8.1. The King Report

The Board of Control endorses the Code of Corporate Practices and Conduct as set out in the King Report and ensures that the Corporation complies with the Code. The need to operate the Group's activities in an open and accountable manner with the highest level of integrity is recognised.

8.2. Board of Directors

The Minister of Transport, Dr Abdullah Omar appointed one additional Board of Control member in November 2001, bringing the total number of the Board of Control to eight (8) non-executive members. The names of the directors are set out below. The Board, in order to keep effective control over the Group meets on a regular basis, and it recognises its responsibility in terms of the Public Finance Management Act, Corporate Governance, and regularly reports material matters to the Minister of Transport which it does through regular meetings of

the Chairman and Chief Executive Officer (CEO) with the Minister.

8.3. Annual Financial Statements

The directors are responsible for the preparation of annual financial statements in such a way that it fairly presents the state of affairs and results of the operations of the Group.

The annual financial statements have been prepared in accordance with generally accepted accounting practice. They are based on appropriate accounting policies, which have been consistently applied.

8.4. Going Concern

The directors have a reasonable expectation that the Group, with the ongoing support of the State through the National Department of Transport, has adequate resources to continue its operations in the foreseeable future. The annual financial statements have therefore been prepared on the going concern basis.

8.5. Affirmative Action

SARCC subscribes to the Labour Relations Act and practices the principles of affirmative action when recruiting and selecting candidates for vacant positions as well as for promotion in line with the Corporation's Employment Equity Policy.

8.6. Black Economic Empowerment

The focus on empowerment of people from previously disadvantaged backgrounds had resulted in the revision of the SARCC tender policy by stipulating a pre-qualification of 25% minimum of black equity in all supplier tenders and higher weightings for the satisfaction of historically disadvantaged requirements in the tender evaluation process.

8.7. Code of Ethics

A formal Code of Conduct and Ethics has been compiled to which the directors and employees fully subscribe. This Code provides reasonable assurance that all people are treated with dignity and respect, that business practices are beyond reproach and that the group's reputation for its integrity and credibility is protected.

8.8. Environment

The Group is aware of the necessity of maintaining the highest standard of environmental care and complies with all regulations in this regard.

9. Board of Control

The affairs of the Corporation are managed by the Board of Control members who include members of the Departments of Finance and Transport. The Minister of Transport appoints board members, including the Chairman. In addition, the Minister appoints to the Board as Participant Observers representatives of the four provinces in which the Corporation operates a commuter rail service.

The following Board members served as members:

Messrs: Mr. EL Lekota (Chairman and non-executive) (Appointed CEO 01/01/2003)
Mr. MP Malungani (Deputy Chairman and non-executive)
Mr. WF Burger (non-executive)
Mr. JM Ngobeni (non-executive)
Mr. J Makokoane (non-executive)
Mr. V Daniels (non-executive)
Mr. L Magagula (non-executive)
Mr. RM Kgosana (Resigned 31/05/2002)

Ex officio: Mr. BJ van der Ross (Acting CEO) (Resigned 31/08/2002)

The following were participant observers (representing provinces wherein rail services have been provided) served in the Board of Control:

Mr. E van der Merwe (Gauteng)
Mr. RF Peterson (Western Cape)
Dr. J Mtila (Eastern Cape)
Mr. G Mahlalela (KwaZulu-Natal)

9.1 Directors emoluments

	2003 R'000	2002 R'000
Directors emoluments: non-executive (SARCC)		
Directors fees		
- Mr. EL Lekota	153	204
- Mr. WF Burger	52	47
- Mr. J Ngobeni	30	38
- Mr. MP Malungani	4	21
- Mr. V Daniels	7	26
Other services	-	-
- Mr. EL Lekota	222	96
- Mr. WF Burger	28	-
- Mr. J Ngobeni	44	-
Directors emoluments: non-executive (Subsidiary)		
- Mr. R Craig	66	24
- Mr. JPD Flanagan	48	23
- Mr. J Ngobeni	66	21
- Mr. BJ Van der Ross	9	-
Directors emoluments: executive		
- Mr. JS Prentice	1,102	985
	<u>1,831</u>	<u>1,485</u>

10. Internal Audit

PricewaterhouseCoopers (PwC) continued to perform the duties of internal auditors of the Corporation during the financial year. They perform internal audit functions based on the level of risk associated with the various activities of the Corporation, as agreed with the Audit Committee.

11. Internal Controls

Internal controls and systems are now designed to provide adequate assurance of the integrity and reliability of the financial statements, to safeguard and maintain accountability of its assets, and to minimise the risk of fraud.

12. Board Committees

12.1. Audit Committee

The Audit Committee consisted of three members of whom two – including the Chairman – are non-executive members. One of the non-executive members is a financial expert. The Acting Chief Executive Officer of the Corporation served as the third member.

The Chief Financial Officer (CFO), internal auditors and external auditors attend meetings by invitation.

Members: Mr. RM Kgosana (Resigned 31/05/2002)
Mr. L Magagula (Chairman and non-executive member)
Mr. EL Lekota (Appointed CEO 01/01/2003)
Mr. MP Malungani (Appointed 01/09/2002) (Resigned 31/05/2003)
Mr. BJ van der Ross (Acting CEO) (Resigned 31/08/2002)

12.2. Human Resources Committee

Members: Mr. EL Lekota (Chairman and non-executive) (Appointed CEO 01/01/2003)
Mr. J Makokoane (non-executive)
Mr. J Ngobeni (non-executive)

In attendance: Mr. BJ van der Ross (Acting CEO) (Resigned 31/08/2002)

12.3. Tender Board Committee

Members: Mr. J Ngobeni (Chairman and non-executive)
Mr. EL Lekota (non-executive) (Appointed CEO 01/01/2003)

In attendance: Mr. BJ van der Ross (Acting CEO) (Resigned 31/08/2002)

13. Corporate Details

13.1. Corporate Secretary

Mr. L Zide was appointed Corporate Secretary during the financial year.

13.2. Registered Address

Block B
Lincoln Wood Office Park
Woodlands Drive
Woodmead

13.3. Postal Address

Private Bag X2
Sunninghill
2157

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
GROUP BALANCE SHEET AS AT 31 MARCH 2003

	Notes	Company		Group	
		2003 R'000	2002 R'000	2003 R'000	2002 R'000
ASSETS					
Non-current Assets					
		5,794,487	5,512,097	5,797,378	5,514,589
Property, plant and equipment	2	5,794,252	5,511,862	5,797,378	5,514,589
Investment in subsidiary	3	235	235	-	-
Current Assets					
		959,645	480,558	957,980	477,861
Accounts receivable		55,717	70,398	68,815	76,355
Amount owing by subsidiary	3	56,363	51,493	-	-
Loan to Metrorail		-	7,129	-	7,129
Bank and cash		544,750	56,912	586,350	99,751
Promissory notes		302,815	294,626	302,815	294,626
Total Assets		<u>6,754,132</u>	<u>5,992,655</u>	<u>6,755,358</u>	<u>5,992,450</u>
EQUITY AND LIABILITIES					
Capital and Reserves					
		4,494,065	4,582,931	4,488,124	4,578,597
Ordinary share capital	4	4,248,258	4,248,258	4,248,258	4,248,258
Non-distributable reserves	5	2,319,500	2,301,000	2,319,500	2,301,000
Funds	6	130,000	100,000	130,000	100,000
Rolling stock reinstatement reserve	7	73,213	27,564	73,213	27,564
Accumulated loss		(2,276,906)	(2,093,891)	(2,282,847)	(2,098,225)
Non-current Liabilities					
		1,654,363	953,498	1,654,363	953,498
Long-term liability	8	31,551	34,927	31,551	34,927
Deferred income	9	74,988	29,030	74,988	29,030
Capital subsidy	10	1,547,824	889,541	1,547,824	889,541
Current Liabilities					
		605,704	456,226	612,871	460,355
Accounts payable	11	596,041	446,722	597,749	447,999
Provisions	12	1,794	1,466	7,253	4,318
Short term portion of the long-term liability	8	3,376	3,040	3,376	3,040
Short term portion of deferred income	9	4,493	4,998	4,493	4,998
Total Equity and Liabilities		<u>6,754,132</u>	<u>5,992,655</u>	<u>6,755,358</u>	<u>5,992,450</u>

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
GROUP INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2003

	Notes	Company		Group	
		2003 R'000	2002 R'000	2003 R'000	2002 R'000
Revenue		247,483	218,373	277,353	242,603
Income from property management		138,408	126,770	167,892	150,852
Infrastructure assets rental		60,000	60,000	60,000	60,000
Capital subsidy and grants amortised	10	46,717	27,811	46,717	27,811
Sundry income		2,358	3,792	2,744	3,940
Expenditure		2,003,381	1,900,474	2,040,666	1,927,462
Depreciation		226,443	237,372	227,777	238,558
Loss on sale of assets		998	153	932	90
Insurance claims		85,083	82,847	85,083	82,847
Insurance premiums		52,807	37,712	52,807	37,712
Operator and maintenance expenses		1,449,115	1,364,402	1,449,115	1,364,402
Other expenditure		22,951	25,150	35,126	36,474
Property portfolio expenses		132,354	125,106	122,374	113,703
Personnel cost and directors emoluments	13	33,630	27,732	67,452	53,676
Operating loss before interest		(1,755,898)	(1,682,101)	(1,763,313)	(1,684,859)
Interest received	14	77,414	37,642	83,230	39,642
Interest paid	15	(25,927)	(11,979)	(25,935)	(11,979)
Operating loss before State compensation		(1,704,411)	(1,656,438)	(1,706,018)	(1,657,196)
State compensation		1,545,919	1,366,250	1,545,919	1,366,250
Net loss for the year		(158,492)	(290,188)	(160,099)	(290,946)

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	Ordinary share capital R'000	Non- distributable reserve R'000	Funds R'000	Rolling stock reinstatement reserve R'000	Accumulated loss R'000	Company Total R'000
Balance as at 1 April 2001		4,248,258	2,352,243	80,000	20,257	(1,424,688)	5,276,070
Changes in accounting policy	16		(51,243)			(339,168)	(390,411)
Restated balance as at 1 April 2001		4,248,258	2,301,000	80,000	20,257	(1,763,856)	4,885,659
Transfer from funds				(82,847)		82,847	-
Transfer to funds				102,847		(102,847)	-
Expenditure to reserves					(6,059)		(6,059)
Income received					13,366		13,366
Net loss for the year						(290,188)	(290,188)
Balance as at 1 April 2002		4,248,258	2,301,000	100,000	27,564	(2,074,044)	4,602,778
Fundamental error	17					(19,847)	(19,847)
Restated balance as at 1 April 2002		4,248,258	2,301,000	100,000	27,564	(2,093,891)	4,582,931
Transfer from funds				(85,083)		85,083	-
Transfer to funds				115,083		(115,083)	-
Expenditure to reserves					(6,770)		(6,770)
Income received					52,419		52,419
Increase in non-distributable reserve	5		18,500				18,500
Prior year adjustments						5,477	5,477
Net loss for the year						(158,492)	(158,492)
Balance as at 31 March 2003		4,248,258	2,319,500	130,000	73,213	(2,276,906)	4,494,065

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	Ordinary share capital R'000	Non- distributable reserve R'000	Funds R'000	Rolling stock reinstatement reserve R'000	Accumulated loss R'000	Group Total R'000
Balance as at 1 April 2001		4,248,258	2,352,243	80,000	20,257	(1,428,264)	5,272,494
Changes in accounting policy	16		(51,243)			(339,168)	(390,411)
Restated balance as at 1 April 2001		4,248,258	2,301,000	80,000	20,257	(1,767,432)	4,882,083
Transfer from funds				(82,847)		82,847	-
Transfer to funds				102,847		(102,847)	-
Expenditure to reserves					(6,059)		(6,059)
Income received					13,366		13,366
Net loss for the year						(290,946)	(290,946)
Balance as at 1 April 2002		4,248,258	2,301,000	100,000	27,564	(2,078,378)	4,598,444
Fundamental error	17					(19,847)	(19,847)
Restated balance as at 1 April 2002		4,248,258	2,301,000	100,000	27,564	(2,098,225)	4,578,597
Transfer from funds				(85,083)		85,083	-
Transfer to funds				115,083		(115,083)	-
Expenditure to reserves					(6,770)		(6,770)
Income received					52,419		52,419
Increase in non-distributable reserve	5		18,500				18,500
Prior year adjustments						5,477	5,477
Nett loss for the year						(160,099)	(160,099)
Balance as at 31 March 2003		4,248,258	2,319,500	130,000	73,213	(2,282,847)	4,488,124

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2003

	Note	Company		Group	
		2003 R'000	2002 R'000	2003 R'000	2002 R'000
Cash flows from operating activities		(1,308,922)	(1,276,177)	(1,313,298)	(1,279,332)
Cash receipts from clients		214,716	260,960	237,445	291,147
Cash paid to suppliers and employees		(1,575,125)	(1,562,800)	(1,600,838)	(1,598,142)
Cash applied to operating activities	22	(1,350,409)	(1,301,840)	(1,370,593)	(1,306,995)
Interest received		77,414	37,642	83,230	39,642
Interest paid		(25,927)	(11,979)	(25,935)	(11,979)
Cash flows from investing activities		(501,704)	(450,575)	(403,437)	(452,055)
Investment to maintain operations		(508,833)	(457,703)	(510,566)	(459,183)
Replacement/addition of fixed assets		(525,154)	(454,479)	(527,055)	(457,510)
Depreciation on moveable assets		(7,113)	(6,053)	(7,113)	(6,053)
Proceeds on sale/scraping of assets		23,434	2,829	23,602	4,380
Loan to Metrorail according to agreement		7,129	7,128	7,129	7,128
Depreciation/transfer:moveable assets Metrorail		7,129	7,128	7,129	7,128
Cash flows from financing activities		2,306,653	246,507	2,311,523	270,092
(Decrease) in short-term loans		-	(1,624,000)	-	(1,624,000)
Increase in short-term portion of long term liability		336	301	336	301
(Decrease)/increase in short-term portion of deferred income		(505)	1,333	(505)	1,333
(Increase) in amount owing by the subsidiary		(4,870)	(28,585)	-	-
(Decrease) in the long term liability		(3,376)	(3,040)	(3,376)	(3,040)
Increase in rolling stock reinstatement reserve		45,649	7,307	45,649	7,307
Grant for payment of debt		18,500	-	18,500	-
State compensation - operational		1,545,919	1,366,250	1,545,919	1,366,250
Capital subsidy		705,000	526,941	705,000	526,941
Net (decrease)/increase in cash and cash equivalents		496,027	(1,480,245)	494,788	(1,456,295)
Cash and cash equivalents at the beginning of the year		351,538	1,831,783	394,377	1,850,672
Cash and cash equivalents at the end of the year		847,565	351,538	889,165	394,377

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

1. Accounting policy

The group annual financial statements have been prepared on the historical cost basis in accordance with generally accepted accounting practice. The following are the principal accounting policies used by the group, which are in agreement with the policies used in the previous year:

1.1. Basis of consolidation

The consolidated financial statements include those of the holding company and its wholly owned subsidiary. All inter-company transactions are eliminated upon consolidation.

1.2. Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation. Land is not depreciated as it is deemed to have an indefinite life span. All property, plant and equipment other than land are depreciated on a straight-line basis over the following estimated useful life spans:

Buildings	:	50	years
Permanent Way and Works	:	50	years
Rolling Stock	:	33	years
Computer Equipment	:	3	years
Other Moveable Assets	:	3 - 10	years

Due to the specific nature of property, plant and equipment, revaluation is not considered appropriate. These assets are mainly utilised for the provision of a commuter rail service, and as such have no specific ascertainable market value.

Work-in-progress represents assets under construction and is transferred to the appropriate category of assets on receipt of completion certificates. Depreciation will commence on the date of transfer.

Study and design costs are capitalised and written off in the year in which the cost are incurred in the amount that the relative project will not be executed during the forthcoming year.

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

1.3. Funds and reserves

1.3.1. Funds

Partial self-insurance is achieved through the utilisation of an insurance reserve fund for claims in respect of malicious damage and for the payment of the excesses of claims lodged with insurers. The remainder of the insurance risk is managed through an insurance policy. The fund is credited through the income statement by a transfer to reserves up to the level needed to cover anticipated losses for the following year. It is then debited by a transfer to the income statement for the amount of losses incurred during the current financial period.

1.3.2. Rolling stock reinstatement reserve

Monies received from insurers or from insurance fund for damage to rolling stock are utilised for the reinstatement of rolling stock assets.

1.3.3. Non-distributable reserves

The special grant for taking over of loans and the funding of net liabilities represents monies received in accordance with the South African Rail Commuter Corporation Financial Arrangements Act No. 64 of 2000.

1.4. Bank and cash equivalents

Cash consists of cash on hand and bank reflects the balance on the bank statement.

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

1.5. Post employment benefits

The group's contribution to the defined contribution provident fund is charged to the income statement in the year to which it relates.

1.6. Financial instruments

Financial instruments recognised on the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and interest bearing debt. Financial instruments are initially measured at cost, when the Corporation becomes a party to their contractual arrangements. The subsequent measurement of financial instruments is dealt with below.

1.6.1. Derivative instruments

The Corporation used an interest rate swap to hedge its exposure to interest rate fluctuations in respect of a loan relating to a building erected on its premises.

1.6.2. Trade and other receivables

Trade and other receivables are stated at cost less an allowance for doubtful debts.

1.6.3. Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

1.6.4. Financial liabilities

Financial liabilities are recognised at their original debt value less principal payments and amortisation.

1.6.5. Deferred income

Deferred income represents rental received in advance and is recognised as income over the period of each lease.

1.6.6. Promissory Notes

Promissory notes are held to maturity of the financial assets. These investments are recorded at the discounted present value. Interest is capitalized to the promissory notes over the period of the investments.

**SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003**

1.7. Revenue

Revenue which excludes Value Added Tax, represents infrastructure assets rentals and revenue derived from property development and letting of property. Revenue from property management activities is recognised in the period of occupation by the lessees. Infrastructure assets rentals represents rental charges received from Transnet for the use of SARCC infrastructure in accordance with a contractual agreement.

1.8. Capital subsidy

Government grants and subsidies received represent monies received from National Department of Transport (NDOT) and other government institutions for improvements and acquisitions of rail commuter assets. Funds are credited to a capital subsidy account and amortised over a period of 30 years.

1.9. Comparative figures

Where necessary, the comparative figures have been restated to account for change in accounting policy and fundamental errors.



SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

Property, plant and equipment

	Land & Buildings R'000	Permanent way & works R'000	Rolling Stock R'000	Work in Progress R'000	Other Assets R'000	Intersite Assets R'000	Total R'000
Company							
Carrying Value at 1 April 2001	2,327,335	786,437	1,307,693	612,027	277,886		5,311,378
Expenditure	-	-	-	454,479	-		454,479
Capitalisations	69,758	43,125	249,010	(410,862)	48,969		-
Adjustments	-	-	(2,046)	-	(2,246)		(4,292)
Correction of fundamental error	(5,000)	-	-	(14,847)	-		(19,847)
Disposals	(677)	-	-	-	1,950		1,273
Depreciation	(24,629)	(38,151)	(61,018)	-	(107,331)		(231,129)
Closing Balance	2,366,787	791,411	1,493,639	640,797	219,228		5,511,862
Cost	2,596,364	1,183,525	2,093,530	640,797	657,990		7,172,206
Accumulated Depreciation	(229,577)	(392,114)	(599,891)	-	(438,762)		(1,660,344)
Carrying Value at 31 March 2002	2,366,787	791,411	1,493,639	640,797	219,228		5,511,862
Carrying Value at 1 April 2002	2,366,787	791,411	1,493,639	640,797	219,228		5,511,862
Expenditure	-	-	-	525,154	-		525,154
Capitalisations	131,651	113,793	401,713	(685,413)	43,388		5,132
Adjustments	(2,682)	(234)	(9,719)	(8,418)	3,062		(17,991)
Disposals	(10,341)	-	-	-	(235)		(10,576)
Depreciation	(31,565)	(51,290)	(83,150)	-	(53,324)		(219,329)
Closing Balance	2,453,850	853,680	1,802,483	472,120	212,119		5,794,252
Cost	2,703,328	1,297,084	2,466,249	472,120	700,055		7,638,836
Accumulated Depreciation	(249,478)	(443,404)	(663,766)	-	(487,936)		(1,844,584)
Carrying Value at 31 March 2003	2,453,850	853,680	1,802,483	472,120	212,119		5,794,252
Group							
Carrying Value at 1 April 2001	2,327,335	786,437	1,307,693	612,027	277,886	2,433	5,313,811
Expenditure	-	-	-	454,479	-	3,031	457,510
Capitalisations	69,758	43,125	249,010	(410,862)	48,969	-	-
Adjustments	-	-	(2,046)	-	(2,246)	-	(4,292)
Correction of fundamental error	(5,000)	-	-	(14,847)	-	-	(19,847)
Disposals	(677)	-	-	-	1,950	(1,533)	(260)
Depreciation	(24,629)	(38,151)	(61,018)	-	(107,331)	(1,204)	(232,333)
Closing Balance	2,366,787	791,411	1,493,639	640,797	219,228	2,727	5,514,589
Cost	2,596,364	1,183,525	2,093,530	640,797	657,990	10,282	7,182,488
Accumulated Depreciation	(229,577)	(392,114)	(599,891)	-	(438,762)	(7,555)	(1,667,899)
Carrying Value at 31 March 2002	2,366,787	791,411	1,493,639	640,797	219,228	2,727	5,514,589
Carrying Value at 1 April 2002	2,366,787	791,411	1,493,639	640,797	219,228	2,727	5,514,589
Expenditure	-	-	-	525,154	-	1,901	527,055
Capitalisations	131,651	113,793	401,713	(685,413)	43,388	-	5,132
Adjustments	(2,682)	(234)	(9,719)	(8,418)	3,062	-	(17,991)
Disposals	(10,341)	-	-	-	(235)	(169)	(10,745)
Depreciation	(31,565)	(51,290)	(83,150)	-	(53,324)	(1,333)	(220,662)
Closing Balance	2,453,850	853,680	1,802,483	472,120	212,119	3,126	5,797,378
Cost	2,703,328	1,297,084	2,466,249	472,120	700,055	11,862	7,650,698
Accumulated Depreciation	(249,478)	(443,404)	(663,766)	-	(487,936)	(8,736)	(1,853,320)
Carrying Value at 31 March 2003	2,453,850	853,680	1,802,483	472,120	212,119	3,126	5,797,378

Included in land and buildings is an asset with a book value of R 44 million which has been pledged as surety for a long-term liability as shown in note 8.

Improvements to the value of R 1,059 million have been erected on land owned by the Corporation. This land is leased and the right of use has been given solely to the lessee. The cost thereof has not been capitalised as all risks and rewards are borne by the lessee and ownership will only be transferred upon termination or cancellation of the relevant lease agreements. The terms of these lease agreements are of such a nature that it would be impractical to disclose the expected rental to be earned for the period as stipulated in terms of AC105.

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

	Company		Group	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
3 Investment in subsidiary				
Unlisted shares at cost Directors' valuation R 235 000 (2002: R 235 000)	<u>235</u>	<u>235</u>	<u>-</u>	<u>-</u>
Amount owing by the subsidiary	<u>56,363</u>	<u>51,493</u>	<u>-</u>	<u>-</u>
The Corporation has agreed to support the subsidiary by continuing to provide financial assistance as required and by subordinating R 6 million of its loan in favour of creditors.				
4 Ordinary share capital				
Authorised and Issued 4 248 258 440 ordinary shares of R1,00 each issued to the State	<u>4,248,258</u>	<u>4,248,258</u>	<u>4,248,258</u>	<u>4,248,258</u>
5 Non-distributable reserves				
Special grant for taking over of loans Funding of net liabilities	<u>2,281,000</u> <u>38,500</u>	<u>2,281,000</u> <u>20,000</u>	<u>2,281,000</u> <u>38,500</u>	<u>2,281,000</u> <u>20,000</u>
	<u>2,319,500</u>	<u>2,301,000</u>	<u>2,319,500</u>	<u>2,301,000</u>
6 Funds				
Insurance Funds				
Balance at the beginning of the year	100,000	80,000	100,000	80,000
Movements during the year:				
Transfer to income statement	(85,083)	(82,847)	(85,083)	(82,847)
Transfer from income statement	115,083	102,847	115,083	102,847
Balance at the end of the year	<u>130,000</u>	<u>100,000</u>	<u>130,000</u>	<u>100,000</u>
7 Rolling stock reinstatement reserve				
Monies received from insurance for reinstatement of rolling stock.	<u>73,213</u>	<u>27,564</u>	<u>73,213</u>	<u>27,564</u>

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

	Company		Group	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
8 Secured long-term liability				
Interest due on property development financing arrangement	174,249	188,856	174,249	188,856
Less: Discount on pre-payment of above interest	(139,322)	(150,889)	(139,322)	(150,889)
	<u>34,927</u>	<u>37,967</u>	<u>34,927</u>	<u>37,967</u>
Less: Short term portion	(3,376)	(3,040)	(3,376)	(3,040)
Net interest liability	<u><u>31,551</u></u>	<u><u>34,927</u></u>	<u><u>31,551</u></u>	<u><u>34,927</u></u>

The Corporation entered into a property development financing arrangement for the head office of Africon Engineering International (Pty) Ltd, in 1997, covering a period of fifteen years. The liability in respect of the interest payments due by the Corporation over the remaining nine years is funded by a combination of rental receipts from the development and a rebate received from the financing institution. This liability bears a fixed interest rate of 17,8% and is secured by a building with a carrying value of R44 million.

9 Deferred income

Total income	79,481	34,028	79,481	34,028
Less: Short term portion	(4,493)	(4,998)	(4,493)	(4,998)
	<u><u>74,988</u></u>	<u><u>29,030</u></u>	<u><u>74,988</u></u>	<u><u>29,030</u></u>

The Corporation is contractually committed to provide commercial accommodation in respect of promissory notes received from lessees which have been discounted with financial institutions.

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

	Company		Group	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
10 Capital subsidy and grants received				
Capital subsidy				
Balance at the beginning of the year	804,456	339,168	804,456	339,168
Capital subsidy received during the year	663,000	490,165	663,000	490,165
	<u>1,467,456</u>	<u>829,333</u>	<u>1,467,456</u>	<u>829,333</u>
Less: amortised	42,383	24,877	42,383	24,877
Balance at end of the year	<u>1,425,073</u>	<u>804,456</u>	<u>1,425,073</u>	<u>804,456</u>
Grants				
Balance at the beginning of the year	85,085	51,243	85,085	51,243
Grants received received during the year	42,000	36,776	42,000	36,776
	<u>127,085</u>	<u>88,019</u>	<u>127,085</u>	<u>88,019</u>
Less: amortised	4,334	2,934	4,334	2,934
Balance at end of the year	<u>122,751</u>	<u>85,085</u>	<u>122,751</u>	<u>85,085</u>
Total				
Balance at the beginning of the year	889,541	390,411	889,541	390,411
Capital subsidy and grants received during the year	705,000	526,941	705,000	526,941
	<u>1,594,541</u>	<u>917,352</u>	<u>1,594,541</u>	<u>917,352</u>
Less: amortised	46,717	27,811	46,717	27,811
Balance at the end of the year	<u>1,547,824</u>	<u>889,541</u>	<u>1,547,824</u>	<u>889,541</u>
11 Accounts payable				
Trade payables	131,478	42,368	133,186	42,837
Accruals	112,448	29,678	112,448	30,147
South African Revenue Services - VAT	-	-	-	339
Payroll payables	97	1,667	97	1,667
Other payables	352,018	373,009	352,018	373,009
	<u>596,041</u>	<u>446,722</u>	<u>597,749</u>	<u>447,999</u>

Included in other payables is an amount of R272 million payable to Metrorail. The amount has been submitted to arbitration and the arbitrators award has been taken on review. In the event of the arbitration being finalised to the detriment of the Corporation, the full provision will be payable. Sufficient provision has been made for such eventuality.

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
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	Company		Group	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
12 Provisions				
Leave				
Balance at the beginning of the year	1,466	1,250	1,466	1,250
Additional provisions	933	686	2,540	686
Utilised during the year	(605)	(470)	(605)	(470)
Balance at the end of the year	<u>1,794</u>	<u>1,466</u>	<u>3,401</u>	<u>1,466</u>
Profit share incentive of subsidiary				
Balance at the beginning of the year	-	-	2,852	1,929
Additional provisions	-	-	2,600	2,175
Utilised during year	-	-	(1,600)	(1,252)
Balance at the end of the year	<u>-</u>	<u>-</u>	<u>3,852</u>	<u>2,852</u>
Total	<u>1,794</u>	<u>1,466</u>	<u>7,253</u>	<u>4,318</u>
13 Personnel cost and directors emoluments				
Defined contribution plan expense	3,169	2,855	5,843	5,331
Salaries and personnel cost	29,921	24,445	59,778	46,860
Directors emoluments : non-executive (SARCC)				
Directors fees				
- Mr. EL Lekota	153	204	153	204
- Mr. WF Burger	52	47	52	47
- Mr. J Ngobeni	30	38	30	38
- Mr. MP Malungani	4	21	4	21
- Mr. V Daniels	7	26	7	26
Other services			0	
- Mr. EL Lekota	222	96	222	96
- Mr. WF Burger	28	-	28	-
- Mr. J Ngobeni	44	-	44	-
- Mr. MP Malungani	-	-	-	-
- Mr. V Daniels	-	-	-	-
Directors emoluments : non-executive (Subsidiary)				
- Mr. R Craig	-	-	66	24
- Mr. JPD Flanagan	-	-	48	23
- Mr. J Ngobeni	-	-	66	21
- Mr BJ Van der Ross	-	-	9	-
Directors emoluments : executive				
- Mr JS Prentice	-	-	1,102	985
	<u>33,630</u>	<u>27,732</u>	<u>67,452</u>	<u>53,676</u>
14 Interest received				
Interest received includes that received from banking institutions.	<u>77,414</u>	<u>37,642</u>	<u>83,230</u>	<u>39,642</u>
15 Interest paid				
Interest paid on long-term liability	(12,083)	(11,979)	(12,083)	(11,979)
Interest other	(13,844)	-	(13,852)	-
	<u>(25,927)</u>	<u>(11,979)</u>	<u>(25,935)</u>	<u>(11,979)</u>

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

	Company		Group	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
16 Changes in accounting policy				
During the financial year the Corporation changed the accounting policy pertaining to government grants received. In order to achieve compliance to the statement on government grants and to accrue revenue in the income statement on a basis that matches the economic benefits of the related expenses, government grants are recognised as a liability and are amortised over a period of 30 years to the income statement. Comparative figures have been restated. The effect of the change in accounting policy is as follows:				
Decrease in net loss due to change in accounting policy	<u>616,283</u>	<u>462,354</u>	<u>616,283</u>	<u>462,354</u>
Decrease in non-distributable reserve	<u>42,000</u>	<u>51,243</u>	<u>42,000</u>	<u>51,243</u>
Restatement of retained surplus at the beginning of the year in respect of the prior year.	<u>(955,451)</u>	<u>(339,168)</u>	<u>(955,451)</u>	<u>(339,168)</u>
17 Fundamental error				
Correction of fundamental error relating to design and study cost incorrectly capitalised in previous years.	-	14,847	-	14,847
Correction of fundamental error relating to depreciation not accounted for on Africon building.	-	5,000	-	5,000
	<u>-</u>	<u>19,847</u>	<u>-</u>	<u>19,847</u>
Comparative figures have been restated.				

18 Taxation

No provision has been made for taxation as the Corporation is exempt from taxation in terms of legislation (with the exception of Value Added Tax, Regional Services Council levies and other indirect taxes). The subsidiary, which is not exempt from taxation, has no taxable income.

19 Capital commitments

Commitments for future years in respect of contracts entered into	902,028	1,339,000	959,604	1,438,772
Short-term commitments	(561,377)	(698,003)	(597,210)	(786,775)
Long-term commitments	<u>340,651</u>	<u>640,997</u>	<u>362,394</u>	<u>651,997</u>

The capital expenditure will be funded from capital subsidies from the National Department of Transport.

SOUTH AFRICAN RAIL COMMUTER CORPORATION LIMITED
NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

Company		Group	
2003 R'000	2002 R'000	2003 R'000	2002 R'000

20 Post employment benefits

Employees of the South African Rail Commuter Corporation and its subsidiary are members of a defined contribution provident fund governed by the Pension Funds Act. The Corporation however, has no obligations to provide pension or medical aid benefits to retired employees. All permanent employees are members of the fund managed by a Board of Trustees consisting of an equal number of employer and employee nominated trustees.

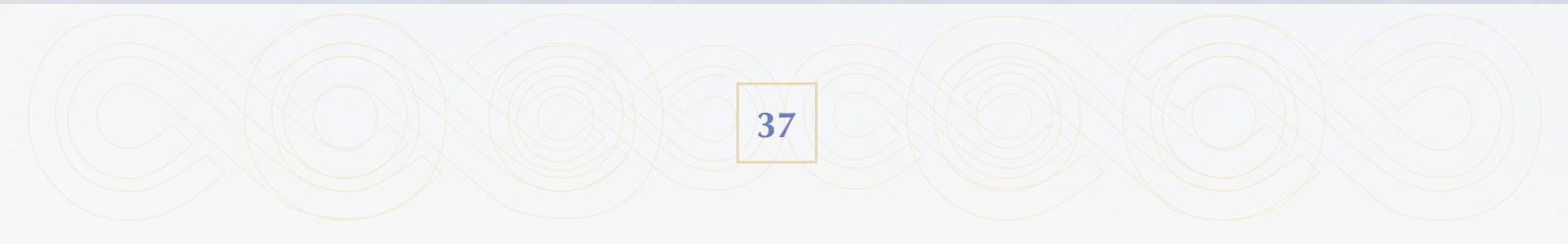
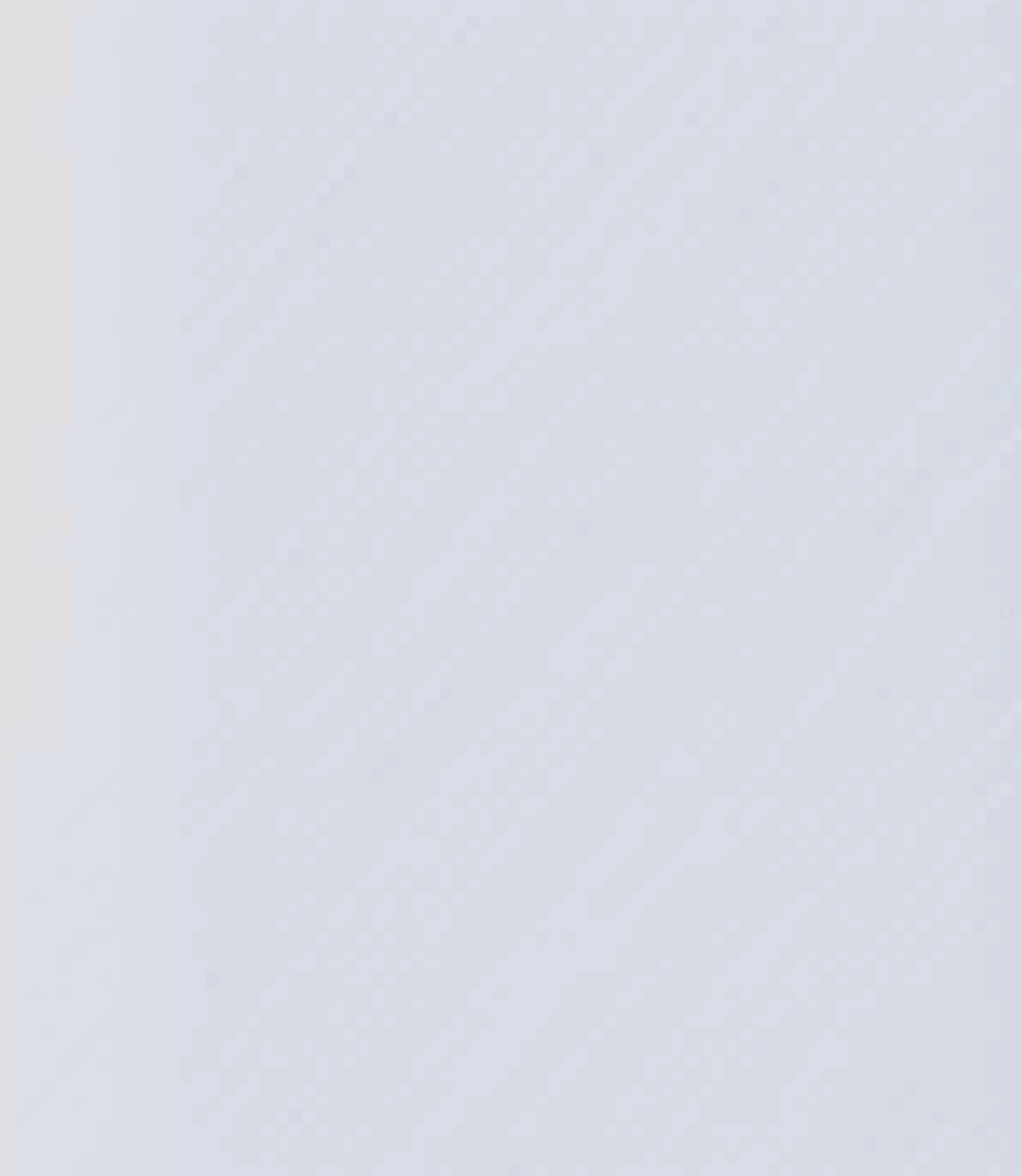
21 Medical aid prefunding

The Corporation has implemented a medical aid prefunding scheme whereby the Corporation contributes to a separate provident fund, 50% of the calculated actuarial liability for post-retirement medical aid requirements, over the balance of an employee's term of service to retirement. This scheme has been instituted on humanitarian grounds and the Corporation has no contractual liability for such contributions or for any post-retirement medical aid funding. An amount of R 952 979 (2002: R 498 016) was transferred to the medical aid prefunding scheme during the financial year.

22 Notes to the cash flow statement

Cash applied to operation activities

Operating deficit before interest	(1,755,898)	(1,682,101)	(1,763,313)	(1,684,859)
Adjusted for:				
Depreciation	226,443	237,372	227,777	238,558
	(1,529,455)	(1,444,729)	(1,535,536)	(1,446,301)
	210,286	178,007	206,183	174,424
Decrease in accounts receivable	14,681	51,911	7,540	50,190
Increase/(decrease) in accounts payable	149,319	129,900	149,750	128,038
Increase/(decrease) in provisions	328	-	2,935	-
(Decrease)/increase in deferred income	45,958	(3,804)	45,958	(3,804)
	(1,319,169)	(1,266,722)	(1,329,353)	(1,271,877)





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