

ESWATINI RAILWAYS



Efficiency Re-defined



Integrated Annual Report 2022/2023



Management
System
ISO 9001:2015
ISO 45001:2018



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Vision, Mission and Values



OUR VISION

To be a sustainable total logistics partner of choice



OUR MISSION

We provide competitive and quality logistics services using innovative solutions to stimulate economic growth



OUR VALUES

Professionalism
People-Centric
Accountability
Reliability
Teamwork
Integrity

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Eswatini Railways at a glance

The 2022/23 fiscal year was transformative for ESR, marked by strategic advancements and strong operational performance. Despite challenges, we successfully expanded our services, improved infrastructure, and strengthened our financial position, underscoring our commitment to enhancing regional connectivity and sustainability in the railway sector.



About our report

You are reading the integrated report of Eswatini Railways (ESR) for the financial year ending 31 March 2023. This report provides a comprehensive account of our journey over the past year, aiming to provide an in-depth look into our strategy, operations, and performance, as well as our approach to managing risks and capitalising on opportunities in Eswatini's railway sector.

In line with our commitment to transparency and accountability, this report is structured in accordance with the IFRS Foundation's International Integrated Reporting Framework. This globally recognised guideline enables us to present a multidimensional view of our value-creation process, considering both the positive and negative impacts on the capitals we engage with. By doing so, we aspire to offer a holistic representation of our strategic objectives, the progress we have made, the challenges we have faced, and how these elements interconnect to influence our ability to create value over the short-, medium-, and long-term.

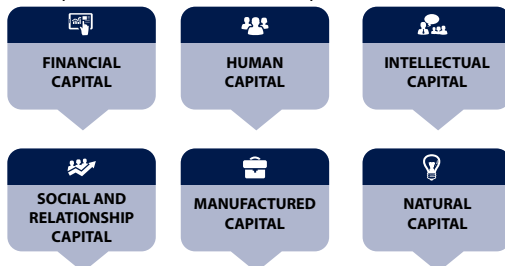


Read about our strategy on page 27.

We invite you to explore this report as a navigational tool for understanding ESR's operational landscape and strategic orientation. Our intention is for stakeholders to gain a strong understanding of how we are fulfilling our mission and vision, underpinned by our corporate values and governance structures. At ESR, we acknowledge the importance of continuous adjustments and improvements in our integrated reporting processes, and we invite all our stakeholders to share their insights and suggestions with us. For any feedback or enquiries, please feel free to email **Nixon Dlamini – CEO – Nixon.Dlamini@esr.co.sz**

SCOPE AND BOUNDARY

This report encompasses the financial year running from 1 April 2022 to 31 March 2023 and delivers a comprehensive overview of all our operations in the Kingdom of Eswatini. The scope aims to include the diverse dimensions of our business – infrastructure, workforce, supply chain, and partnerships – to create a well-rounded representation. This report centres around our six capitals:



to provide a nuanced perspective on how we create, sustain, and distribute value.



For more on our capitals, see page 7.

REPORTING FRAMEWORK

Compiled in accordance with the IFRS Foundation's International Integrated Reporting Framework, this report serves as a robust platform for stakeholders to understand how ESR continuously creates value over time. The International Integrated Reporting Framework dovetails perfectly with our governance model, organisational strategy, and sustainability targets. Additionally, it allows us to transparently report on our impact on various capitals and the trade-offs involved, thereby demonstrating our long-term commitment to sustainable value creation in Eswatini.

MATERIALITY

Our materiality determination process encompasses both quantitative and qualitative analyses. This cross-functional approach helps us understand the complexity and interconnectedness of factors affecting our business, and how they align with our corporate objectives.



Read about our material matters on page 42.

We initiate this process by identifying a comprehensive list of potential material matters through internal reviews, stakeholder engagement, and an analysis of the wider industry and African operating context. This preliminary list undergoes further scrutiny, where we assess the potential impact, likelihood, and time horizon of each matter. By correlating these material matters with our capitals, we develop a focused strategy to optimise value creation. This exercise is integral to our risk management process and informs our annual strategic planning and resource allocation.

The outcomes of our materiality determination process are subsequently presented to our Board of Directors for review and approval, ensuring alignment with our broader corporate governance framework. The approved material matters are then prioritised based on their relevance to stakeholders and strategic importance, making them the cornerstone of this integrated report.


DIRECTORS' STATEMENT OF RESPONSIBILITY

The Board of Directors acknowledges its collective responsibility for the integrity of this integrated report. To uphold this commitment, the report has undergone rigorous internal reviews and external audits to ensure it provides a reliable and complete picture of our performance, risks, opportunities, and strategic vision. The Board actively oversees the report compilation process to ascertain its adherence to the highest ethical standards and corporate governance norms.

 For more on governance, see page 76.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that outline ESR's strategic goals and anticipated milestones. While these statements are grounded on well-reasoned assumptions and projections, it is imperative to note that they are subject to various risks and uncertainties that are outside of our control. As a result, we cannot provide an absolute assurance that these forward-looking objectives will be fully realised.

 For an in-depth examination of these risks, stakeholders are advised to consult the Risk Management section (page 46).

NAVIGATION

To enhance readability and facilitate comprehension, we have incorporated dedicated icons for each of our six capitals. These visual aids are strategically placed to guide you through the interconnected elements of our business model and strategy. Cross-referencing is systematically used to link related content and discussions, enabling a holistic understanding of our operations.

Icons

Highlights



INSTALLED NETWORK CAPACITY



LOAD SIZE



TYPE OF TRAFFIC

Vision, mission and values



Our vision




Our mission




Our values


Capitals




FINANCIAL CAPITAL




HUMAN CAPITAL




INTELLECTUAL CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL



MANUFACTURED CAPITAL



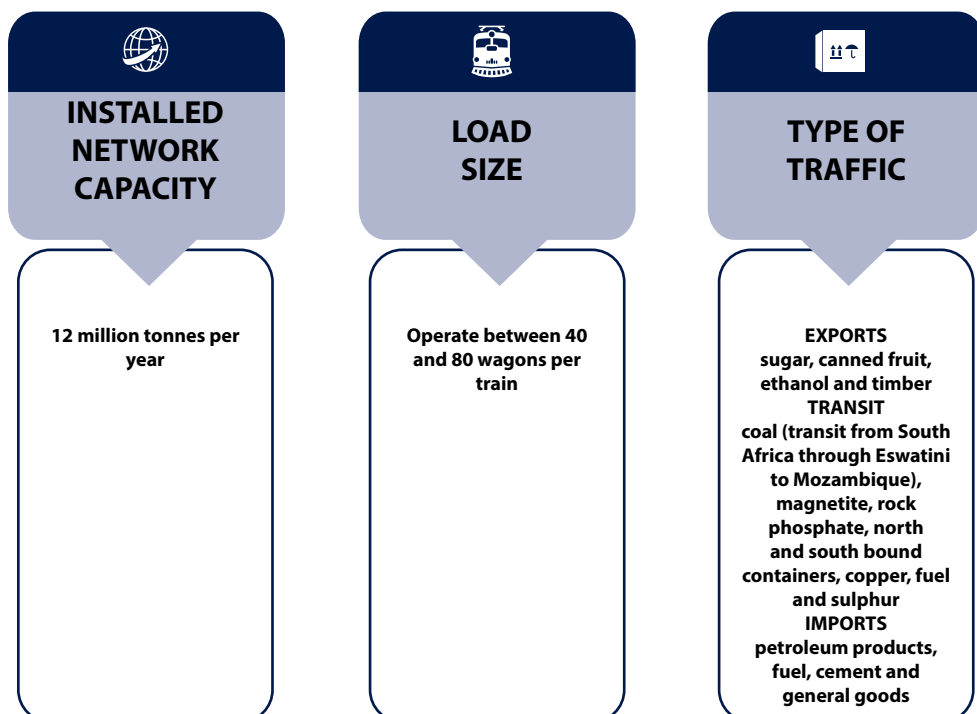
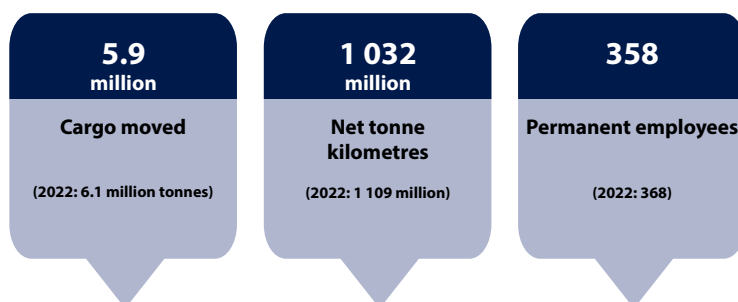
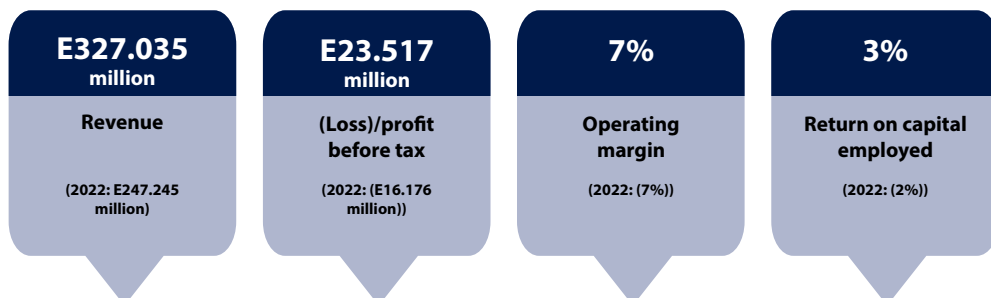
NATURAL CAPITAL

Further reading

 For more information, see page specified

Performance highlights





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As a parastatal entity regarded as a regional leader, Eswatini Railways (ESR) serves as a vital artery for economic growth and development within Eswatini and beyond, setting benchmarks in transit time, reliability, and predictability. We strive to offer a transport solution that is efficient, sustainable, and invaluable to the community, contributing to long-term value creation for all our stakeholders.

Specialising in the transport of import and export commodities, we facilitate trade flows that energise both local and international markets. As a bridge railway, ESR connects Eswatini's industrial hubs with the railway networks of South Africa, Mozambique and other Southern African Development Community (SADC) countries. We meticulously maintain our 301 km rail network to ensure not only the longevity of our assets but also the safety and reliability of our operations. Alongside this, we operate a state-of-the-art dry port at Matsapha Industrial Site serving as a satellite facility for Durban Port. Transit cargo accounts for over 75% of our total revenue, derived mainly from two commodities – magnetite and rock phosphate.

The rail network in Eswatini spans in an East-West direction, starting from the industrial area of Matsapha and stretching to Phuzumoya. At Phuzumoya, it connects with the Northern rail link, facilitating access to the South African ports of Durban and Richards Bay. Additionally, there is a North-South line that begins at Mananga and extends to the same South African ports. This line not only connects to South Africa but also serves as a gateway to Zimbabwe, Zambia, and the Democratic Republic of Congo (DRC), while offering a strategic route to Johannesburg through Komatipoort.

As stewards of Natural Capital, we are continually working towards reducing our environmental footprint through various sustainability initiatives and strategic plans. Our governance structure, spearheaded from our headquarters in Mbabane, mirrors our commitment to sustainability and value creation.



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OUR CAPITALS



Financial

Financial Capital is the cornerstone of our economic engine, providing the necessary resources for operation and growth. It includes our financial reserves, operating budgets, revenue, and debt funding. ESR's financial stability has a direct bearing on stakeholder trust, affecting everything from our capacity for corporate social investment to employee job security. In essence, its proper management is crucial for ensuring sustainable revenue streams and profitability.

In the short term, Financial Capital enables us to maintain smooth operations, such as the crucial railway services connecting Eswatini with neighbouring countries in the SADC region. Our targeted investments in infrastructure contribute to long-term value by improving productivity and return on assets. Given the growing economic importance of railway transport in Southern Africa, our financial robustness ensures both immediate and future value.

Who we are *(continued)*

OUR CAPITALS *(continued)*



Manufactured

Manufactured Capital refers to the physical assets that are fundamental to our railway operations. The condition and efficiency of these assets dictate the quality and reliability of our service, affecting both customer satisfaction and operational costs. Investments in upgrading or maintaining these assets are sourced from our Financial Capital. This form of capital also has environmental implications, as modern, efficient assets contribute to sustainability.

Our Manufactured Capital includes 301km of railway lines, wagons, rolling stock, and advanced railway infrastructure. In the short term, these assets are essential for day-to-day operations and safety standards. Over the medium- and long-term, investments in infrastructure enhancements contribute to our vision of becoming the preferred logistics partner in Southern Africa.



Human

Human Capital is an aggregation of our workforce's skills, experience, and dedication. It's instrumental in leveraging other forms of capital by adding the "human touch" to technology and processes. By investing in training, development, and wellness programmes, we aim to create a high-performance culture that benefits both the individual and the organisation.

Our Human Capital comprises employees, training initiatives, and a culture promoting learning and innovation. Our well-trained workforce ensures the efficient management of our railway services, which is vital for on-time deliveries and customer satisfaction. Their expertise contributes to long-term value creation by enhancing our capacity for innovation and responsiveness to industry changes.



Social and Relationship

Social and Relationship Capital refers to the network of relationships and social licenses that ESR holds with its various stakeholder groups. Effective management of this capital contributes to stakeholder loyalty, better risk management, and access to new opportunities. It is thus closely integrated with all other forms of capital, acting as a "social glue" that binds them together.

Our Social and Relationship Capital involves varied stakeholders like the Government of Eswatini, customers, and communities. The Government's support helps us to facilitate regional trade, while strong relationships with customers and partners improve our service quality. Our employee assistance programmes and health practices build trust and long-term value within our organisation and extend to society, aligning with our focus on sustainability and stakeholder engagement.



Natural

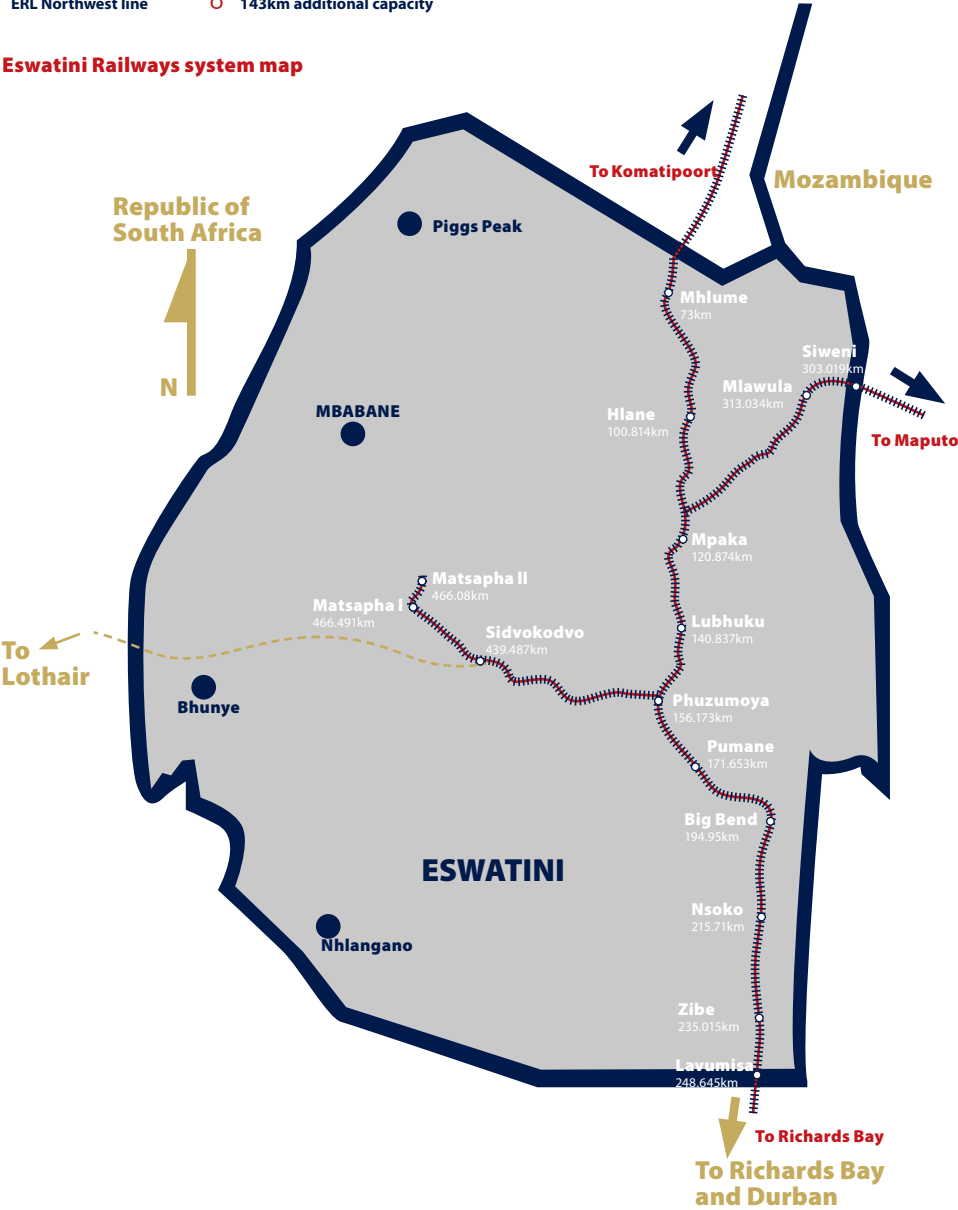
Natural Capital encompasses the environmental resources and ecosystems that are impacted by, or benefit through, our railway operations and sustainability initiatives. This includes the air we emit into, the land we operate upon, and the energy we consume. Its management is increasingly crucial given global and regional focuses on sustainability and climate change.

Contributions to supporting our Natural Capital include responsible water and energy usage and sustainable land development. At ESR, we continually strive to minimise our environmental footprint in line with Eswatini's Nationally Determined Contribution (NDC) to the Paris Agreement. By contributing to an economy-wide greenhouse gas emissions reduction target of 5% by 2030 and assessing the long-term impacts of existing and future projects for fossil fuel transit, we aim to reflect our commitment to sustainable operations and long-term value creation for all stakeholders.

SYSTEM MAPS

North-South line	○ 189km
East-West line	○ 112km
301 route and yard km	○ Mananga to Golela – 189km
	○ Matsapha to Phuzumoya – 65km
	○ Mpaka to Goba – 51km
ERL Northwest line	○ 143km additional capacity

Eswatini Railways system map



Who we are (continued)

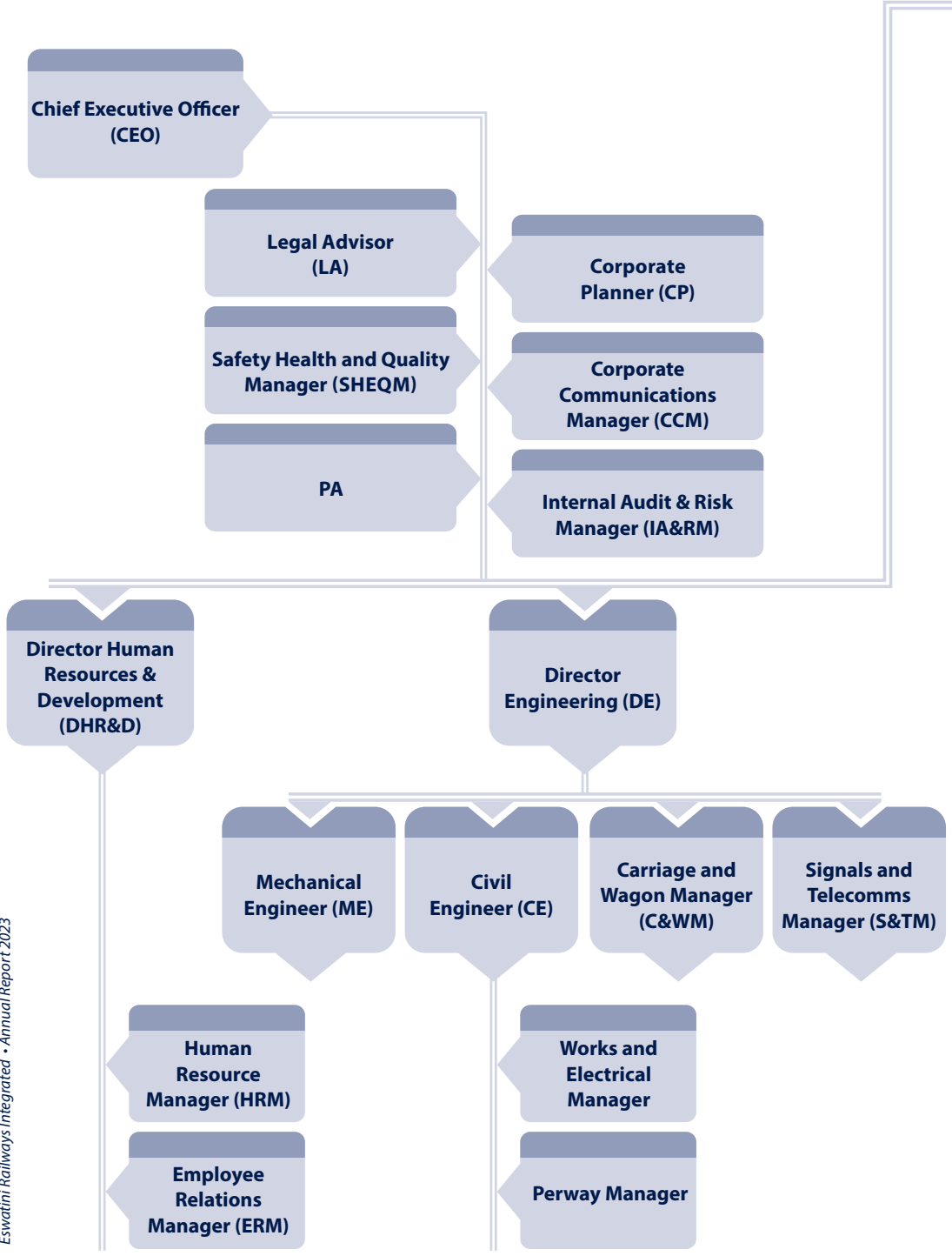
SYSTEM MAPS (continued)

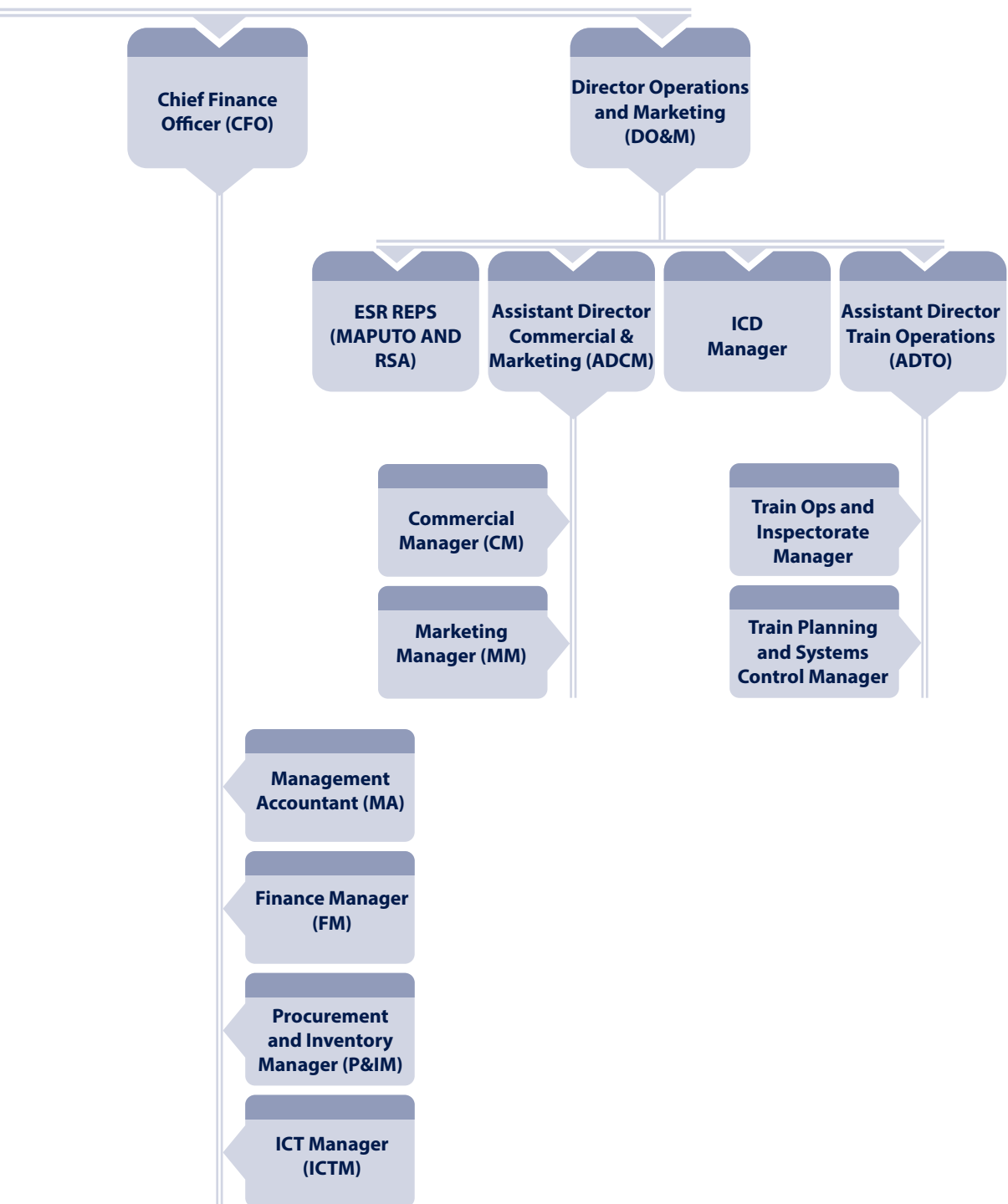




Who we are *(continued)*

OUR OPERATING STRUCTURE





Our operating environment



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Eswatini Railways operates in a dynamic environment shaped by global sustainability efforts, regional trade initiatives, and the needs of Emaswati. We adapt to technological advancements, engage with regional partners to enhance connectivity, and align our operations with the community's socio-economic goals. Our strategic focus is on embracing these layers of influence to remain a competitive and responsible industry leader.

GLOBAL CONTEXT

The international railway industry is experiencing a paradigm shift influenced by advancements in technology, heightened environmental concerns, and the ever-increasing imperative for sustainable development. The push towards green initiatives has led to an uptick in investments in cleaner energy sources for train propulsion, such as electricity and hydrogen fuel cells, as countries aim to reduce carbon emissions in line with the Paris Agreement commitments. Additionally, the industry is adapting to the Fourth Industrial Revolution, which brings about challenges and opportunities in the form of digitalisation, artificial intelligence, and the Internet of Things (IoT). These technologies promise to revolutionise logistics, improve safety, and enhance customer service but also require significant capital outlay and upskilling of the workforce. Moreover, the global operating environment is still grappling with the aftermath of the COVID-19 pandemic, which has disrupted supply chains and altered trade patterns. As borders reopen and trade gradually returns to pre-pandemic levels, railway companies must navigate the complexities of a transformed landscape where reliability, adaptability, and resilience are more crucial than ever. For ESR, this global backdrop serves as a canvas for strategic planning – compelling us to innovate, adapt, and align with these emergent global trends to remain competitive and fulfill our role as a vital conduit for trade and commerce.

REGIONAL CONTEXT

The Southern African railway sector is contending with its unique set of challenges and opportunities. The African Continental Free Trade Area (AfCFTA) agreement promises to reshape the region's economic landscape, potentially increasing intra-African trade and thus the demand for efficient cross-border railway services. This economic bloc could serve as a catalyst for modernising rail infrastructure, harmonising regulatory frameworks, and fostering regional cooperation. However, logistical hurdles, such as inconsistent railway procedures between countries and the need for substantial investment in rail infrastructure, loom large. Additionally, political instability and economic disparities across the region present risks that require careful navigation. For ESR, the regional context demands a proactive approach to leverage new market opportunities presented by the AfCFTA, while collaborating with regional partners to address infrastructural and regulatory discrepancies. Our strategic investments and operational decisions must account for these regional dynamics to enhance connectivity, boost trade, and contribute to regional economic growth.

LOCAL CONTEXT

Eswatini Railways operates within a complex and evolving environment. As the Kingdom of Eswatini is a landlocked country, the importance of a reliable and efficient railway system for economic development cannot be overstated. It is a vital link that connects the country to regional seaports and global markets. Locally, the railway industry must contend with challenges such as infrastructure maintenance, funding constraints, and the need to maintain a skilled workforce amidst a fluctuating economic climate. There is also an increasing expectation from local communities and the government for ESR to contribute to socio-economic development and to operate in an environmentally responsible manner. The local operating environment requires ESR to be agile and responsive to the needs of its immediate stakeholders to ensure that services are not only economically viable but also socially and environmentally sustainable. Engaging with local businesses, addressing the concerns of communities affected by our operations, and working closely with local authorities to align our services with national development goals are all part of our commitment to driving progress within Eswatini.

Chairperson's statement



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Eswatini Railways has enjoyed a successful year with an after-tax profit of E9.92 million compared to a net loss of E12.04 million in 2022, total revenue of E327 million (which was 32% higher than in the previous year), and a declared dividend of E2 million to the shareholder. The improved performance is mostly attributable to integrated internal processes, sustainability, robust relations with stakeholders, and taking a conscious decision on the diversification of the Organisation's revenue streams. The outcomes of this decision show that as a regional leader in the Southern African railway industry, ESR can thrive beyond an over-reliance on our transit business.

ESR continues to invest in integrating its internal processes, robust relations with stakeholders, and improved service delivery. Although beset with various challenges, including damaged infrastructure from floods in February 2023 which resulted in unexpected spending of E14.3 million to restore operations, the Organisation has shown much resilience. Through efforts from the management team, ESR was able to rebound and deliver good results by year end.

BOARD MATTERS

Although the Board was only appointed in April 2023 after the retirement of the previous Board in December 2022, the Board has hit the ground running and was able to make up for the time without a Board. This included reviewing and approving the Annual Budget and the Corporate Strategy initiated by the previous Board, approving the annual financial statements and also overseeing the recruitment of and filling the vacant positions in the Executive Committee.

ESR has embraced the principles of good corporate governance, and it has been the Board's aim to continually instil this culture in the way we conduct business. In order to equip the Board with these good governance principles and skills, the Board has undergone training on corporate governance and will continue to sharpen its skills on this important value during its tenure.

The Board is keeping a close eye on all regulatory matters. There have been no major changes during the year under review. ESR was requested to lodge an application for a license for ease of importing fuel by the Eswatini National Petroleum Company. This is fuel used for the ESR locomotives.

The Organisation unfortunately lost its long-serving Board Secretary, Ms Phindile Sikhondze, in early 2023. The Organisation is grateful for the many fruitful years it had with Ms Sikhondze and her dedicated service to ESR. Our condolences go out to her family.

STRATEGIC INITIATIVES

One of the most significant projects that ESR is presently seized with is the ESRIL project, which will have significant spin-offs for ESR and will promote the desired integration between ESR and the neighbouring railways, being TFR in South Africa and CFM in Mozambique. Communities are being resettled to make way for the project and this is fully funded by the Eswatini Government. The Board recognises the significance of the resettlement programme and is monitoring it closely to ensure that it is carried out efficiently and with sensitivity to the affected communities. It is important that proper controls are also adhered to during this process and the Audit and Investment Committees are carrying out their roles in monitoring the project. The Board, through its Committees, had mandated management to work on settling some claims that have arisen from the resettlement exercise and ensure that this exercise is carried out smoothly and as amicably as possible.

Chairperson's statement^(continued)

STRATEGIC INITIATIVES ^(continued)

As one of ESR's strategies is to increase efficiencies in transporting our cargo, ESR has continued to pursue the seamless movement of our trains from Sidvokodvo into the Maputo Port. This project has required significant stakeholder investment and coordination, and I am pleased to report that we have made significant progress in this area. Conversations with TFR on the South African side are ongoing and it is hoped that the results of this engagement will also be positive.

OUR 2023–2026 REVITALISATION STRATEGY

The changing and sometimes hostile business environment emphasises the need to constantly review ESR's approach to business. To this end, the Board adopted the 2023–2026 ESR Revitalisation Strategy with its three main pillars being Human Capital Development, Business Development, and Operational and Business Excellence. The adoption of this strategy along with the Corporate Balanced Scorecard will allow us to monitor our performance across various key areas to ensure that we improve manpower planning and skilling as well as infrastructure and equipment upgrades. This will enable us to deliver tangible short-, medium-, and long-term value to our customers, business partners, and other stakeholders.

In its commitment to be the logistics partner of choice, ESR continues to evolve through constant innovation and has put in place initiatives that will add value across the Organisation and approve customer experience.



For more on our strategy, please refer to page 27.

STAKEHOLDER ENGAGEMENT

ESR recognises the support and contribution it receives from Government and the Ministry of Works, being the line Ministry, and is committed to partnering with Government and promoting all Government's developmental efforts.

ESR employees are significant and influential stakeholders, and the Organisation will continue to invest in their skilling and training across departments. The current strategy has therefore given due recognition to Human Capital as one of the three significant pillars, and it has a significant impact on all other capitals (Financial, Intellectual, Manufactured, Social And Relationship, And Natural Capital). ESR will strive to ensure that it is an employer of choice and provides an environment that is conducive to employees' growth and development.

The communities that live in areas traversed by our railway lines are important to ESR. It is our hope that the presence of the railway lines will contribute to an improved livelihood for the neighbouring communities. ESR is dedicated to creating sustainable value for each stakeholder group throughout the forthcoming financial periods, and the safety and socio-economic well-being of the resettled communities are therefore priorities for the Organisation.



For more information on how we address stakeholder priorities, see page 34, and for more on how our business outcomes impact and align with stakeholder outcomes, see page 40.

OUTLOOK

Our outlook for ESR in the short-, medium-, and long-term is positive. Funding needs to be procured for the acquisition of rolling stock and the rehabilitation of rail infrastructure. The soliciting of funding for the ESRL project is underway. Significant progress has been made in the resettlement of communities to make way for the project.

ESR owns and operates residential properties spread throughout its railway stations. These properties are desperately in need of rehabilitation so that they can become a significant contributor to ESR's revenue. ESR is looking to embark on this property revamping process which, for reasons of affordability, will be tackled in phases.

The Board is sensitive to the pressure brought to bear on the country's road infrastructure and the disruptions to traffic that have sometimes resulted from truck accidents carrying cargo to our rails. In order to alleviate pressure on the country's roads, the Board is committed to ensuring that funding is obtained as one of the mitigation measures to revive the old Kadake line.

Furthermore, the Organisation is focused on dealing decisively with and eradicating challenges that threaten its sustainability, such as the recent scourge of fuel pilferage. ESR needs to strengthen controls regarding fuel theft cases, which are affecting the bottom line in terms of revenue.

CONCLUSION

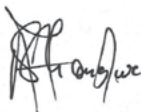
May I extend my gratitude to the Board of Directors for their support, commitment, and efforts that make the responsibility easier to bear for all of us.

On behalf of the Board, I would like to thank the previous Board, which retired in December 2022, for the contributions it made to the growth of ESR.

Particular appreciation goes to the management and staff of ESR, who have continued to believe in the Organisation and have worked with dedication and commitment in the face of challenges. Special thanks go to the Minister of Works, Honourable Chief Ndлуhуlаzа, and the entire staff at the Ministry of Works, for their unwavering support.

Finally, I would like to express my sincere appreciation to all of our stakeholders for their ongoing support and confidence in ESR. We are committed to surpassing your expectations and creating value impacted by the Organisation's actions and operations, and we look forward to a successful year ahead.

SAKHA LOLIWE LOSIMEME SISONKHE!



Nonhlanhla Shongwe
Chairperson



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Looking forward, we are poised to further elevate our financial performance, underpinned by a steadfast commitment to operational excellence and strategic growth to become a total logistics partner.

As a commercialised, government-owned parastatal, our financial year was both challenging and rewarding. Our operations have demonstrated the robustness and resilience of our business model. Our network, stretching over 300km, is efficiently managed by a lean yet highly capable team of approximately 360 employees.

As we connect Eswatini's main industrial centres with the broader regional network, our role as a critical link in the supply chain has never been more evident. This year's experience has reinforced the importance of our strategic initiatives and our focus on maintaining a robust, reliable service for both imports and exports, despite the challenges posed by our unique position as a landlocked country.

Our operational strategy has been continually adjusted to not only counter these challenges but also to seize the opportunities they present, particularly in enhancing our regional connectivity and service reliability. This has involved making strategic decisions that ensure our financial stability while improving our service offerings, aligning with our commitment to being a leading logistics partner in the region.

FINANCIAL SUSTAINABILITY

The financial year has been a testament to ESR's resilience in the face of financial and operational challenges. As a self-reliant entity, our financial sustainability hinges on efficient service delivery and prudent financial management. This year, our resilience was particularly tested by unprecedented weather events, including major rainfall and cyclones, that damaged part of our infrastructure and caused significant disruptions. These natural calamities necessitated the depletion of some of our financial reserves, which impacted our year-end figures. Despite these setbacks, our focus remained unwavering on ensuring financial security to manage any eventuality.

Our operational model, where every train journey contributes to our financial health, was both a strength and a challenge during these times. The closure of lines due to weather damages not only affected our immediate revenue streams but also posed a risk to our long-term operational sustainability. However, the team at ESR responded with agility and determination, working tirelessly to restore services and maintain our network's integrity. We continued to facilitate the movement of traffic through Eswatini and ensured the flow of imports and exports between the ports of Richards Bay and Maputo.

As a landlocked country, our operations are significantly influenced by regional dynamics. Events in our neighbouring countries, South Africa and Mozambique, have direct repercussions on our service delivery and financial stability. However, this interdependence also presents us with unique opportunities to serve as a vital transit route in the region. The strategic positioning of our routes, especially the high-performing ones that connect the far north with ports Richards Bay and Durban, exemplifies our ability to turn geographical challenges into operational strengths.

Message from the Chief Executive Officer

(continued)

OPERATIONAL PARTNERSHIPS

The past year has underscored the critical role of operational partnerships and the dual nature of the challenges and opportunities they present. As a member of the Southern African Railways Association (SARA), ESR heavily relies on collaborative relationships with regional operators like Transnet Freight Rail (TFR), which historically has been the backbone of railway infrastructure in Southern Africa. This partnership is vital for our rolling stock supply and essential for transporting diverse commodities like grain, fuel, and coal. However, the challenges faced by TFR have had a ripple effect on our operations, which highlights our dependency and the need for diversified partnerships.

Despite these challenges, we have turned some into opportunities, particularly on the Maputo route. The difficulties at TFR have positioned ESR as a more viable gateway for commodity exporters in South Africa, which is demonstrably enhancing our role in regional trade. Our ability to offer alternative routes and logistics solutions has not only kept goods moving but also significantly increased traffic on our network, evidenced by a 211% increase on the Goba Corridor route.

Yet, this success brings its own set of challenges. The surge in demand has stretched our capacity. At times, it has forced us to turn away customers due to rolling stock limitations. This situation has catalysed our efforts to revitalise our existing fleet and explore new investments in locomotives and wagons. While these are substantial financial commitments, they are essential for meeting the growing demands of our routes and maintaining our competitive edge in the region.

ESR remains committed to striking a balance between leveraging our strategic position and mitigating the risks of dependency. Our approach includes enhancing our operational capacity as well as fostering robust business agreements that ensure mutual support and reliability. These initiatives are part of our broader strategy to ensure that ESR remains a key player in the regional railway network that can adapt to and capitalise on the changing landscape of the African rail industry.

STRATEGIC FOCUS AND MATERIAL MATTERS

In aligning our strategic focus with the evolving dynamics of the railway sector, we have identified several material matters that are pivotal in shaping our approach and driving our mission forward. At the forefront is the necessity to maintain and upgrade our railway infrastructure and rolling stock. This is both an operational need and the cornerstone of our strategic vision, as the very essence of our service relies on the robustness of our infrastructure and the reliability of our rolling stock.

Equally important is the aspect of security, both of our network and the goods we transport. The safety of our operations and the protection against contraband or pilferage are paramount to our commitment to secure and trustworthy service. This focus on security also has broader implications, which extends into the realm of national and regional security, given our role in facilitating cross-border trade.

Human Capital development emerges as another key material matter. Recognising that our people are our greatest asset, we are investing in growing and nurturing our workforce. This involves not just enhancing their skills and capabilities but also fostering a creative and responsive culture that can adapt to the unpredictability of our operating environment. By doing so, we aim to build a team that is competent and innovative in addressing the challenges we face.

Process efficiency is another area we are keenly focusing on. As a relatively small railway operation, the need to “punch above our weight” requires streamlined and efficient processes. This efficiency is not limited to operational aspects alone. It extends to administrative processes to guarantee that every aspect of our business contributes to our overall effectiveness and agility.

Lastly, the traction power – our locomotives and rolling stock – remains a critical material matter. Their reliability is essential for our ability to move goods and generate revenue, which in turn impacts our financial stability and growth prospects.



For in-depth overviews of our new strategy and material matters, see pages 27 and 42, respectively.

OPPORTUNITIES AND CHALLENGES

Reflecting on the past year, ESR has navigated a landscape rich in both opportunities and challenges. Our strategic position as a key player in the Southern African railway sector presents us with unique prospects to enhance our operations and expand our reach.

Opportunities

Infrastructure development and diversification

The plan to build a major railway line linking South Africa with Eswatini is a significant opportunity. Despite the challenges in securing support and funding, this project could dramatically increase our operational capacity and regional influence.

Strategic partnerships and route expansion

The increasing traffic through the Goba Corridor and the use of Maputo port opens new avenues for business growth. The surge in demand, although currently stretching our capacity, is a clear indicator of our growing importance in regional trade.

Adaptation to market needs

The shift in cargo movement from road to rail, aligned with our road to rail strategy, positions us advantageously to capture a larger market share. This aligns with our goals of sustainability and efficiency and caters to changing customer preferences and environmental considerations.

Challenges

Resource constraints

The challenge of acquiring new rolling stock and upgrading existing ones, given their high costs, remains a significant hurdle. This is compounded by the heightened competition for these resources within the region.

Infrastructure vulnerability

The weather-related damage to our infrastructure underscores the vulnerability of our operations to natural disasters. Ensuring robust and resilient infrastructure is a continuous challenge in the face of such unpredictability.

Cross-border coordination

The dependency on and coordination with regional partners like TFR presents both an opportunity and a challenge. While it offers potential for growth and enhanced service, it also exposes us to risks associated with their operational issues.

Funding for strategic projects

Securing funding and support for key projects, like Eswatini Rail Link, is a critical challenge. This requires not just financial investment but also diplomatic and strategic engagement with multiple stakeholders.

BUSINESS DEVELOPMENT INITIATIVES

The past year at ESR has been marked by a strategic push towards diversification and innovation, aligning with our broader vision of not just being a railway operator, but a comprehensive logistics provider in the region. We have embarked on several ambitious business development initiatives, each designed to capitalise on the growth and opportunities present in our dynamic operating environment.

Key among our initiatives is the development of new infrastructure, including the expansion of our dry ports. The new Dry Port in Mpaka is a significant project from our previous strategy that we are pushing forward, aiming to decentralise industrial activity and create a more integrated logistics hub.

Seeing the potential in Eswatini's growing mining sector, we are positioning ourselves to serve both the inbound and outbound logistics needs of this industry. This move signifies our commitment to diversifying our service offerings beyond traditional rail transport to tap into new and lucrative markets.

Another exciting venture is the development of our real estate assets. We are exploring ways to utilise our extensive network across the country to develop office spaces, warehousing solutions, and residential housing.

With the agricultural sector being a significant part of the Eswatini economy, we are looking at establishing railway lines to support the sugar industry. This initiative will facilitate efficient transportation of sugar cane to mills and finished products to markets with the intention of presenting a win-win situation for small growers, the sugar industry, and ESR.

Plans are also underway to revive and upgrade certain dormant railway lines, like the one connecting the iron ore mines in KaDake to our main network. This is part of our broader strategy to enhance our operational capabilities and meet the anticipated demand in the coming years.

ENGAGING STAKEHOLDERS

At the heart of our stakeholder engagement is our commitment to our customers. Our focus has been on retaining our existing customer base as well as expanding it by consistently delivering reliable and efficient services. We have engaged in proactive communication, road shows, and publishing detailed reports to educate and inform our customers about our capabilities and innovations.

Our interactions with the government, as our primary shareholder and a key policymaker, have been pivotal. We have worked closely with government bodies to ensure alignment of our operations with national transportation and economic objectives. Challenges like legislative changes impacting our business have been met with strategic dialogue so that the government understands the implications of their decisions on our operations.

Our partnerships with neighbouring countries and regional operators have been crucial in navigating the complexities of cross-border trade. Initiatives such as the seamless agreement signed with the Mozambique government exemplify our efforts to foster regional cooperation.

Our collaboration with TFR and other regional railways through SARA, highlights our approach to building strategic partnerships, and through shared strategies and open communication, we aim to create a more integrated and resilient regional railway network.

Beyond our immediate business network, our engagement extends to the communities we serve. We recognise that our operations have a direct impact on local communities, and as such, we are committed to being a good corporate citizen by contributing to local development.



For more on our stakeholder engagement, see page 34.

Message from the Chief Executive Officer

(continued)

PEOPLE AND CULTURE

In an industry where technological proficiency is crucial, we have committed to upskilling our workforce technically and preparing them to be adaptable and forward-thinking. This approach goes beyond training. It is about fostering an environment where continuous learning and innovation are part of our DNA.

Talent management and retention have been integral in maintaining our competitive edge. We have focused on nurturing a sense of belonging and purpose among our employees because we recognise that their growth and commitment are essential for our collective success. In the 2022/23 financial year, our team's ability to respond effectively to operational challenges has been nothing short of remarkable. From dealing with natural disasters to adapting to market fluctuations, their problem-solving mindset and collaborative spirit have been key drivers in our operational success.

Equally important has been our effort to cultivate a positive organisational culture. We have strived to create an environment characterised by open communication, mutual respect, and teamwork. This culture building is more than about enhancing employee satisfaction, as it is a strategic approach that contributes to our overall effectiveness and service excellence.



To read more about human resources at ESR, please refer to page 65.

OUTLOOK

Short-term outlook

In the immediate future, our focus is on reinforcing our operational capacity and resilience. This entails raising capital for critical infrastructure developments and network enhancements. Our short-term goal is to significantly boost our revenue and build on the 32% increase achieved during this financial year. We aim to stretch this target further by leveraging the increased demand and opportunities in our network. This period is about laying the groundwork to make sure we have the robust infrastructure and resources to meet our ambitious revenue targets.

Medium-term outlook

Over the next few years, our vision expands to encompass both maintaining and growing our market share. Through strategic business diversification, we plan to deepen our engagement in new markets, particularly focusing on the mining sector and real estate development. These ventures represent both revenue diversification and a strategic expansion of our service offerings. The medium term is also about building upon our road to rail strategy to tap into the shift from road transport to more sustainable rail solutions.

Long-term outlook

Looking further into the future, sustainability and innovation form the basis of our long-term strategy. Our vision is to establish ESR as the logistics partner of choice, which is an achievable ideal underpinned by our unwavering commitments to operational excellence and environmental sustainability. We foresee a future where ESR leads not just in terms of operational capacity but also in setting industry standards for sustainable and efficient rail transport. This involves investing in green technologies, exploring new fuel alternatives for our locomotives, and ensuring that our operations align with the evolving environmental standards.

ACKNOWLEDGEMENTS

I am reminded of the words of Nelson Mandela, "It always seems impossible until it's done." This sentiment perfectly encapsulates our journey at ESR over the past year. In the face of challenges that seemed insurmountable, we have persevered and furthermore achieved significant milestones.

My deepest gratitude goes to our staff – the bedrock of ESR. Their unwavering commitment and hard work have been the driving force behind our ability to navigate through the year's challenges successfully. They have embodied the spirit of resilience and adaptability so that our operations continued seamlessly.

I would also like to extend my sincere appreciation to the government, our primary shareholder. Their support, particularly in projects like Eswatini Rail Link, has been invaluable. Their belief in our vision and objectives has enabled us to undertake significant initiatives that contribute to the growth and economic development of Eswatini and the region.

Our auditors deserve a special mention for their diligent work to ensure the highest standards of transparency and accountability in our operations. Their efforts have been crucial in maintaining the trust and confidence of our stakeholders in our financial and operational integrity.

To our customers and business partners, thank you for your continued faith in our services. Your support and feedback have been instrumental in shaping our strategic direction and service offerings. It is your trust that motivates us to strive for excellence and innovation in all that we do.

Despite the challenges we faced, Eswatini Railways has emerged stronger and more resilient. This year's achievements are a shared success with all who have been a part of our journey. As we look forward to the future, we do so with optimism and the assurance that together, we can overcome great challenges and seize the exceptional opportunities that come our way.

Nixon Dlamini
Chief Executive Officer



Delivering value



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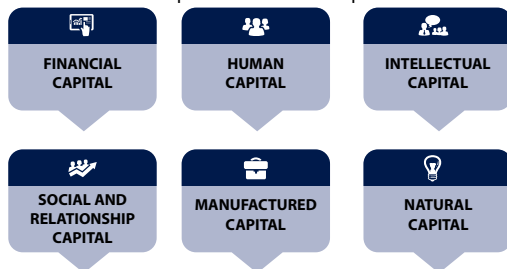
CREATING VALUE THROUGH STRATEGY

In a rapidly evolving and increasingly interconnected world, ESR aims to strategically position itself as the sustainable total logistics partner of choice, not just in Eswatini, but across the Southern African railway sector.

From Blue Ocean to Revitalisation

The previous “Blue Ocean” strategy from 2019 to 2022, built on the pillars of stakeholder management, business diversification, and systems integration, aimed at targeting customers and enhancing stakeholder engagement to shift traffic from road to rail, particularly in the Goba Corridor and in Eswatini. While this strategy saw some success in customer conversion and stakeholder engagement, it faced challenges, including limitations imposed by the COVID-19 pandemic, leading to unfulfilled projects and goals.

The new “Revitalisation Strategy” from 2023 to 2026 builds on these foundations and retains the focus on business diversification, but with an expanded scope. Central to this strategy are three core pillars: Human Capital Development, Business Development, and Operational and Business Excellence. These pillars are designed as integrated, interdependent components, each contributing to value creation across the spectrum of our six capitals:



For more on our capitals, see page 7.

The projects outlined for implementation over the next three years serve as the catalysts to drive our strategic objectives. These include, but are not limited to, a fully-fledged estate management division, warehousing solutions at Mpaka Inland Container Depot, and the transportation of gas from Mozambique to Eswatini. These projects are not standalone entities but are envisioned to weave together into a cohesive, value-creating whole, aligned with our strategic pillars and directly responsive to stakeholder expectations.

Stakeholders are the backbone of our strategy. They range from our customers who seek reliability and efficiency to the broader society that expects us to operate sustainably and ethically. We have comprehensively mapped stakeholder issues, expectations, and material matters to ensure that our strategic choices resonate with their concerns while delivering mutual value. These stakeholder insights have been integral in shaping our strategy, and we remain committed to an ongoing dialogue to continually refine and evolve our strategic vision.



For more on stakeholder engagement, see page 34.

Our Revitalisation Strategy seeks to propel ESR into a future that not only withstands the test of current market dynamics and stakeholder expectations but is flexible enough to adapt to unforeseen challenges and opportunities. It is an ambitious yet prudent roadmap, carefully calibrated to balance risk and reward, and anchored in the responsible management and development of our six capitals.

Opportunities and challenges

Navigating the complex landscape of the Southern African rail sector necessitates a keen eye for opportunities, coupled with a vigilant approach to challenges that could impede our progress. Our strategy is tuned to harness these opportunities for immediate and long-term value creation while deploying mitigation tactics for potential roadblocks.

Opportunities:

1. One of the most significant prospects lies in fully fledged **estate management and warehousing**, addressing immediate demands for storage and logistics solutions. This aligns with stakeholder interests from the financial institutions and shareholders looking for diversified revenue streams.
2. The global shift towards a greener, sustainable future offers avenues in the **hydrogen economy**. This is in addition to the potential to transform unused wagons, thereby contributing to sustainability and generating new business.
3. **Strengthened relationships with business partners** such as CFM and TFR offer us opportunities for shared growth. For instance, the transportation of gas from Mozambique taps into an unmet demand, offering new revenue streams.
4. With road transport reaching saturation and increased awareness of its environmental impact, the **migration from road to rail** is an unmissable opportunity. This is a medium- to long-term value addition affecting stakeholders like customers and regional railway associations who demand more sustainable transportation.
5. **Digitisation** offers a frontier for innovation, from enhanced cargo tracking for customers to data analytics capabilities that can predict demand and optimise operations.

Delivering value *(continued)*

CREATING VALUE THROUGH STRATEGY *(continued)*

Opportunities and challenges *(continued)*

Challenges:

1. **Economic instability**, including regional economic downturns and high finance costs, represent immediate challenges affecting our financial sustainability.
2. Fast-paced advancement makes **technological obsolescence** a constant challenge, requiring ongoing investment in our Intellectual Capital.
3. **Geopolitical tensions and social unrest** are external challenges that could affect operations and investor confidence.
4. **Regulatory hurdles** such as overregulation of rail-friendly industries poses a risk to expansion plans, particularly those around green energy and sustainability.
5. With increasing awareness and regulations surrounding environmental sustainability, **climate change** remains a long-term challenge. This is further amplified by region-specific issues like water scarcity in Southern Africa.

Our strategy takes a holistic approach to these challenges and opportunities. By integrating real-time analytics, stakeholder feedback, and market trends into our decision-making processes, we ensure that we remain agile and responsive to both the risks and opportunities presented by the external environment. The aim is not just to survive but to thrive, generating consistent value for all stakeholders involved.

Strategy programmes and projects

Human Capital Development Programme

Programme leader:	Director Corporate Services
Start date:	1 April 2023
End date:	31 March 2026
Duration:	Three years

Strategic objective:

To inculcate a high-performance culture in the organisation

Projects under the programme:

#	Project	Target period
1	○ Development and implementation of Employee Engagement & Retention Strategy ○ Identify and develop key skills for the organisation	August 2023
2	○ Talent Management (include succession planning, HIPOS development)	July 2023
3	○ PMS transformation including reward and recognition	July 2023/ongoing
4	○ Development and Implementation of Training (including on-the-job) and development, coaching and mentoring, upskilling and multiskilling, and PDPs	September 2025
5	○ Leadership philosophy and development	September 2025
6	○ Change Management knowledge sharing (culture change and team building)	September 2024
7	○ Alignment of structure to strategy	December 2023
8	○ Manpower planning (including exits management)	July 2023
9	○ Remuneration structure and job evaluation	September 2023

Business Development Programme

Programme leader:	Director Business Development
Start date:	1 April 2023
End date:	31 March 2026
Duration:	Three years

Strategic objective:

To be a sustainable and profitable organisation

Projects under the programme:

#	Project	Target period
1	Business diversification <ul style="list-style-type: none"> Total logistics including ESR-owned customs clearance Road to rail migration Estate Management (including rail reserve) Align with Strategic Fuel Reserve initiative Own trucking/airline/shipping business Truck stop Mpaka ICD Transportation of gas from Mozambique Warehousing Passenger train Implementation of Sugar Spurs Project Implementation of ESRL project Secure intermodal projects – Investment in rolling stock and sidings Market intelligence and demand forecasting Bulk fuel supplier 	March 2026 March 2024
2	Backwards and forward integration of business <ul style="list-style-type: none"> Secure port space in the region Secure mines in the region Establishment of a strategic partnership for container depots in Durban and Richards Bay Seamless movement of traffic to Richards Bay and Durban Information sharing and dissemination 	March 2024 November 2024 March 2026
3	Adoption and implementation of PMBOK for project management <ul style="list-style-type: none"> Undertake investment/project appraisal for identified projects Proactive stakeholder engagement 	September 2023 March 2026
4	Operationalise PPP concept	September 2023

Delivering value *(continued)*

CREATING VALUE THROUGH STRATEGY *(continued)*

Strategy programmes and projects *(continued)*

Business Development Programme

Programme leader: **Director Business Development**

Start date: **1 April 2023**

End date: **31 March 2026**

Duration: **Three years**

Strategic objective:

To be a sustainable and profitable organisation

Projects under the programme:

#	Projects	Target Period
5	Adequate rolling stock <ul style="list-style-type: none">○ Formalised alliances and relationships with strategic partners○ Acquisition of rolling stock○ Convert unused and old wagons to suit/meet demand	March 2024 March 2026 December 2025
6	Infrastructure investment <ul style="list-style-type: none">○ Revamp track and associated infrastructure○ Rehabilitate ESR Estates and villages○ Construction of rail from Matsapha to Ka-Dake○ Rail track maintenance and phased rehabilitation	June 2025

Operational and Business Excellence Programme

Programme leader: Director Finance

Start date: 1 April 2023

End date: 31 March 2026

Duration: Three years

Strategic objective:

To be a responsive, agile, and relevant organisation

Projects under the programme:

#	Project	Target period
1	○ Digitalisation and technology advancement	June 2024
2	○ Development of ICT roadmap	August 2023
3	○ Training on ICTs	March 2026
4	○ Acquisition of broadband infrastructure	March 2024
5	○ Alignment of all processes, integrated planning (hiring, systems, placement etc.)	September 2025
6	○ Process re-engineering	September 2024
7	○ Systems integration	September 2024
8	○ Cost management	March 2026
9	○ Effective risk management	March 2026
10	○ Review marketing plan and strategy to then implement (include joint marketing with neighbouring railways)	March 2024
11	○ Implementation and management of all relevant ISO standards	March 2026
12	○ Develop and implement multi-layered safety and security strategy	December 2023
13	○ Develop and implement Contract Management Strategy	March 2024
14	○ Review of existing policies and procedures (including Standard Operating Procedures and alignment to strategic direction of organisation)	March 2024

Delivering value *(continued)*

CREATING VALUE THROUGH STRATEGY *(continued)*

Human Capital Development



Human Capital is the cornerstone of our Revitalisation Strategy, as we recognise that our people are central to the value we create across all six capitals. It is imperative to nurture a culture of high-performance that goes together with employee well-being, satisfaction, and professional growth.

Our objective is clear: to cultivate a high-performance culture within ESR by developing, deploying, and managing quality and relevant Human Capital. The key performance indicators (KPIs) that guide our Human Capital Development programme range from talent management and succession planning to leadership development and change management knowledge sharing.



In addressing identified weaknesses such as poor talent management and lack of objective recruitment criteria, we aim to redefine our approach to human resources. Strategies such as the Employee Engagement and Retention Strategy, Employee Development Plan, and Performance Management System transformation are set to rectify these shortcomings. Our plan emphasises training, including on-the-job skill acquisition, coaching and mentoring, upskilling, and multiskilling. This multi-faceted approach aids in optimising employee productivity and job satisfaction while simultaneously bolstering our Financial and Intellectual Capitals.



Cognisant of the broader societal expectations, we are also committed to fair compensation and job creation, contributing to economic upliftment. We also recognise the interdependencies between Human Capital and Social and Relationship Capital. Thus, our change management initiatives are directed not only at enhancing the organisational culture but also at building trust and strong relationships both internally and externally.



Given the nuanced economic landscape of Eswatini and the Southern African region, we are focused on manpower planning to ensure that our organisational structure is agile enough to adapt to market changes without compromising on the quality of our service delivery. This in turn positively impacts our Manufactured and Financial Capitals by reducing operational costs and enhancing efficiency.



Business Development

Our Business Development pillar aims to solidify ESR as a sustainable and profitable organisation, while catalysing value across multiple capitals such as Financial, Manufactured, Social and Relationship, and Natural. Central to this aim is the diversification of our revenue streams through a series of targeted projects, which have been meticulously outlined and aligned with stakeholder expectations.



The spectrum of projects spans from establishing a fully-fledged estate management division to implementing fueling harbours for our business partners. One of our key projects is the development of a truck stop at Ka-Dake, which not only augments our Financial Capital but also significantly impacts our Manufactured and Natural Capitals by relieving road congestion and reducing carbon footprint.



To ensure the successful delivery of these projects, KPIs such as project implementation, rolling stock acquisition, and proactive stakeholder management have been set. We will employ the PMBOK framework for project management, underlining our commitment to operational excellence and Intellectual Capital growth.



Our drive for business development is buoyed by opportunities presented in the green and hydrogen economy. We are set to engage in a phased migration of rail-friendly goods currently moved by road to rail. This eco-friendly approach is in line with global sustainability trends and directly addresses stakeholder concerns about climate change. Furthermore, it enhances our Social and Relationship Capital by reinforcing our commitment to environmental stewardship, thereby fostering stronger community and business relationships.

Operational and business excellence



Key to our pursuit of excellence is the digitisation of our operations and advancement in technology. We have earmarked projects aimed at systems integration and training on ICT to reinforce our Intellectual Capital. For example, implementing all relevant ISO standards enhances our quality management system, contributing to a more reliable and safer operating environment. This not only augments our Manufactured Capital but also addresses stakeholder issues surrounding reliability and cargo safety.





Our KPIs in this domain include effective risk management and the development of multi-layered safety and security strategies. These directly correspond to mitigating threats such as cyber fraud and climate change, which bear implications for our Financial and Natural Capitals. We also focus on optimising cost management plans to bolster our Financial Capital, in line with stakeholder expectations on the reduction of the cost of doing business.



One of the pressing stakeholder concerns is the need for seamless movement of cargo and trains. To that end, we have initiatives like rail track maintenance and phased rehabilitation, which not only fortify our Manufactured Capital but also meet expectations from railway administrators for more efficient services. In alignment with our commitment to a high-performance culture under the Human Capital Development pillar, the Operational and Business Excellence pillar reinforces this through the development and implementation of an Employee Development Plan, which interlinks Human and Intellectual Capitals.



Delivering value *(continued)*

STAKEHOLDER ENGAGEMENT

Our stakeholder engagement practices are rooted in the recognition of diverse values and the proactive addressing of each group's concerns.

This ensures that we foster robust relationships across all fronts. We are committed to maintaining open channels of communication, responding effectively to feedback, and collaborating on shared objectives to create mutual value.

At ESR, we are committed to building and sustaining meaningful relationships with all parties involved in or affected by our operations. We understand that the value we create for our stakeholders directly translates into the value they bring to us. This cycle forms a reciprocal relationship that drives our collective success. Through dedicated efforts to understand and address the unique concerns of each stakeholder group, we strive to nurture partnerships that are characterised by trust, transparency, and shared aspirations.

Stakeholder group	What value means to them	Matters of concern to this group	How we respond to their concerns	State of our relationship with this group
Customers	<ul style="list-style-type: none"> Reliable and timely service delivery, competitive rates, and clear communication 	<ul style="list-style-type: none"> Transit time, rolling stock availability, clearance issues, stops at ports 	<ul style="list-style-type: none"> Weekly operational meetings, addressing challenges with TFR and CFM, collaboration with local revenue services and shipping lines 	<ul style="list-style-type: none"> ESR has a good working relationship with customers, with the organisation always striving to meet customer's expectations.
Employees	<ul style="list-style-type: none"> Career growth, job security, a positive work environment 	<ul style="list-style-type: none"> Talent management, skill development, recognition and reward 	<ul style="list-style-type: none"> Talent development programmes, performance management system, open communication channels 	<ul style="list-style-type: none"> There is robust engagement with employees through bargaining groups, although there are still outstanding issues like the Train Working System and Collative Agreement.
Government	<ul style="list-style-type: none"> Regulatory compliance, infrastructure development, economic growth 	<ul style="list-style-type: none"> Policy alignment, infrastructure investment, compliance with regulations 	<ul style="list-style-type: none"> Strategic partnerships, joint infrastructure projects, advocacy, and lobbying activities 	<ul style="list-style-type: none"> Government support has been crucial in ESR's growth, providing essential backing for infrastructure projects and fostering a regulatory environment that aids in the expansion of our rail operations.



Stakeholder group	What value means to them	Matters of concern to this group	How we respond to their concerns	State of our relationship with this group
Media	<ul style="list-style-type: none"> Transparency, corporate responsibility, and newsworthy developments 	<ul style="list-style-type: none"> Accurate reporting, corporate developments, industry news 	<ul style="list-style-type: none"> Regular press releases, media briefings, transparent reporting 	<ul style="list-style-type: none"> There is constant engagement with ESR from the mainstream media before any article is published. Social media insights are beneficial although engagement can be difficult to control, and ESR strives to manage this area of outreach.
Suppliers	<ul style="list-style-type: none"> Fair business practices, timely payments, and long-term relationships 	<ul style="list-style-type: none"> Fair pricing, timely delivery, transparent procurement processes 	<ul style="list-style-type: none"> Efficient procurement strategies, regular supplier evaluations, fair contracting 	<ul style="list-style-type: none"> Overall ESR has good working relationships with suppliers.
Financial institutions	<ul style="list-style-type: none"> Financial stewardship, risk management, and return on investment 	<ul style="list-style-type: none"> Financial stability, risk-adjusted returns, investment security 	<ul style="list-style-type: none"> Strategic financial planning, risk management practices, regular financial reporting 	<ul style="list-style-type: none"> ESR has an excellent working relationship with financial institutions who are always willing to do business with the organisation.
Regulators	<ul style="list-style-type: none"> Compliance, industry standards, and public safety 	<ul style="list-style-type: none"> Adherence to regulations, efficient operations within compliance frameworks 	<ul style="list-style-type: none"> Compliance efforts, regular engagement, and operational adjustments as needed 	<ul style="list-style-type: none"> ESR always strives to meet requirements from Regulators and there are no pending strains in our relationships.

Delivering value *(continued)*

STAKEHOLDER ENGAGEMENT *(continued)*

Stakeholder group	What value means to them	Matters of concern to this group	How we respond to their concerns	State of our relationship with this group
Community	<ul style="list-style-type: none"> Socio-economic development, environmental stewardship 	<ul style="list-style-type: none"> CSR, environmental impact, local development 	<ul style="list-style-type: none"> Community projects, environmental programmes, stakeholder meetings 	<ul style="list-style-type: none"> The relationships between ESR and communities are currently healthy, although there are outstanding issues like fencing of rail reserve and fair compensation for their cattle killed on rail.
Partners	<ul style="list-style-type: none"> Collaborative growth, shared investments, and co-created value 	<ul style="list-style-type: none"> Joint venture success, shared benefits, operational synergy 	<ul style="list-style-type: none"> Collaborative projects, strategic alignment, shared strategic objectives 	<ul style="list-style-type: none"> Overall, ESR has a healthy relationship with our strategic partners which include CFM and TFR.



For more on how our specific business activities impact stakeholder outcomes, refer to our business model section on page 38.

We acknowledge the importance of continuous adjustments and improvements in our stakeholder engagement processes. We regularly reassess our strategies and welcome revisions that enhance our collaborations and partnerships. We invite all our stakeholders to share their insights and suggestions with us. For any feedback or enquiries, please feel free to email **Nixon Dlamini – CEO – Nixon.Dlamini@esr.co.sz**



Delivering value *(continued)*

OUR VALUE-CREATING BUSINESS MODEL

Our value-creating business model is designed to deliver tangible benefits to our stakeholders and drive sustainable growth for ESR. Through strategic resource allocation, innovative operations, and engaged partnerships, we are committed to enhancing our service delivery and securing our position as a leader in the Southern African railway industry.

INPUTS The foundations of ESR's operations



For an in-depth review of our capitals, see page 7.

KEY ACTIVITIES

Executing our strategy

- Delivering reliable transport services for both import and export commodities.
- Facilitating transit cargo movement across SADC countries with our bridge railway services.
- Efficiently managing the collection and distribution of local, regional, and international cargo.
- Committing to Corporate Social Investment (CSI) and robust stakeholder engagement to ensure our operations benefit all.

Our strategy is actualised through:

- Business diversification to meet evolving market needs.
- Integration of sophisticated systems that streamline operations and communication.
- Fostering a high-performing and innovative organisational culture.

In mitigating risks, we focus on:

- Upholding financial stability in a volatile market.
- Transforming our organisation to reduce transit revenue dependency.
- Ensuring regulatory compliance and effective stakeholder management.
- Modernising our technology to maintain our competitive edge.



For more details on our strategic approach and risk management, see page 27 and 46, respectively.

OUTPUTS

The impact of our work

- Seamless and efficient transport of a wide range of commodities.
- Enhanced integration of Eswatini within the SADC region, connecting key ports and facilitating trade.
- Increased trade volumes resulting from improved cargo processing capabilities.

TRADE OFFS

Balancing our priorities

- A significant trade-off this year involved balancing the need for immediate infrastructure repairs against long-term investment plans following the weather-related damage.
- Resource allocation between upgrading technology to stay current and investing in rolling stock to meet increasing demand also presented a notable trade-off.
- Balancing stakeholder needs with operational capacities, especially in the face of increased demand for the Goba Corridor, required us to make strategic trade-offs.




Delivering value *(continued)*









OUR VALUE-CREATING BUSINESS MODEL *(continued)*

OUTCOMES

Value delivered to stakeholders and ESR

Stakeholder group	Capitals	Related inputs, key activities, outputs, and trade-offs	Outcomes for stakeholders	Outcomes for the organisation
Customers		<ul style="list-style-type: none"> Inputs: Infrastructure investment, rolling stock expansion Key activities: Service diversification, trade route optimisation Outputs: Enhanced goods transportation, expanded route options Trade-offs: Focusing on profitable routes, deferring expansion elsewhere 	<ul style="list-style-type: none"> Enhanced service reliability Diverse transit options 	<ul style="list-style-type: none"> Revenue growth Improved asset utilisation
Employees		<ul style="list-style-type: none"> Inputs: Talent development, cultural initiatives Key activities: HR innovation, performance and culture nurturing Outputs: Workforce skill growth, innovative work culture Trade-offs: Budget allocation to talent vs. operational needs 	<ul style="list-style-type: none"> Career advancement Skill enhancement 	<ul style="list-style-type: none"> Increased productivity Improved innovation
Government		<ul style="list-style-type: none"> Inputs: Policy collaboration, infrastructure co-investment Key activities: Regulatory advocacy, strategic partnerships Outputs: Infrastructure co-development, supported regulatory alignment Trade-offs: Policy influence vs. operational autonomy 	<ul style="list-style-type: none"> Regulatory alignment Infrastructure improvements 	<ul style="list-style-type: none"> Strategic project support Policy influence
Media		<ul style="list-style-type: none"> Inputs: Communication strategy, brand management Key activities: Corporate transparency, media relations Outputs: Positive public engagement, strengthened corporate image Trade-offs: Public perception management vs. operational confidentiality 	<ul style="list-style-type: none"> Informed public Positive brand awareness 	<ul style="list-style-type: none"> Enhanced reputation Stakeholder trust
Suppliers		<ul style="list-style-type: none"> Inputs: Supply chain optimisation, procurement strategy Key activities: Cost-efficient sourcing, supplier partnerships Outputs: Strong supply partnerships, optimised resource procurement Trade-offs: Supplier selection based on cost vs. quality 	<ul style="list-style-type: none"> Reliable supply Fair business practices 	<ul style="list-style-type: none"> Cost savings Supply reliability



Stakeholder group	Capitals	Related inputs, key activities, outputs, and trade-offs	Outcomes for stakeholders	Outcomes for the organisation
Community	 	<ul style="list-style-type: none"> • Inputs: Community projects, environmental programmes • Key activities: CSI initiatives, sustainable practices • Outputs: Beneficial CSR projects, environmental conservation efforts • Trade-offs: Community investment vs. immediate financial returns 	<ul style="list-style-type: none"> • Socio-economic upliftment • Environmental stewardship 	<ul style="list-style-type: none"> • Community goodwill • Sustainable operations
Financial institutions	 	<ul style="list-style-type: none"> • Inputs: Financial negotiations, risk management • Key activities: Capital raising, financial planning • Outputs: Strategic financial management, guaranteed investment stability • Trade-offs: Loan terms negotiation vs. financial flexibility 	<ul style="list-style-type: none"> • Risk-adjusted returns • Investment security 	<ul style="list-style-type: none"> • Access to capital • Improved credit terms
Regulators	 	<ul style="list-style-type: none"> • Inputs: Compliance efforts, regulatory engagement • Key activities: Adherence to regulations, lobbying activities • Outputs: Compliance with regulations, efficient and lawful operations • Trade-offs: Regulatory compliance vs. operational efficiency 	<ul style="list-style-type: none"> • Industry standards upholding • Public safety 	<ul style="list-style-type: none"> • Operational licensing • Reduced legal risks
Partners	 	<ul style="list-style-type: none"> • Inputs: Joint ventures, strategic alliances • Key activities: Collaborative projects, shared investments • Outputs: Fruitful joint ventures, collaborative market growth • Trade-offs: Shared benefits vs. shared control 	<ul style="list-style-type: none"> • Strengthened partnerships • Co-created value 	<ul style="list-style-type: none"> • Market expansion • Collaborative innovation



For more on stakeholder engagement, see page 34.

Material matters



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42 MATERIAL MATTERS



Material matters are not isolated challenges but integral components that influence our ability to create sustainable value. Therefore, the alignment of our material matters with strategic priorities is of paramount importance to us.

Our focus extends from the immediate term, where liquidity and operational efficiency are vital, to the long-term sustainability and resilience of our organisation. Mapping out and assessing our material matters allows us to strategically allocate resources, both tangible and intangible, to address stakeholder concerns, regulatory requirements, and market dynamics. This holistic approach fosters our capability to create a resilient and value-driven railway system that is equipped to turn challenges into opportunities.

Material matter	Short-term impact on value creation	Medium-term impact on value creation	Long-term impact on value creation	Strategies for addressing impact
Poor economic growth	Reduced revenue and cash flow could limit immediate investments in critical infrastructure.	Ongoing financial strain may necessitate cost cutting, affecting quality and services.	Long-term viability could be threatened if economic conditions persist.	Diversification of income streams and cost optimisation.
Obsolete technology	Impacts operational efficiency, increasing costs.	Competitive disadvantage due to outdated systems.	Erosion of market share and eventual obsolescence.	Technology modernisation plan.
Retention of critical skills	Immediate loss of skills can disrupt operations.	Skills gaps can lead to medium-term inefficiencies.	Loss of institutional knowledge can compromise long-term competitiveness.	Talent management and retention programmes.
Cyber fraud	Immediate financial losses and reputation damage.	Increased costs for security measures can affect profitability.	Long-term trust issues can compromise stakeholder relationships.	Robust cybersecurity measures.
Organisational culture	Low morale can lead to short-term productivity loss.	Turnover and poor stakeholder relationships can result in lost opportunities.	Poor culture can compromise long-term strategic objectives.	Culture transformation initiatives.
Cashflow/liquidity	Limits immediate operational and strategic activities.	Constrained ability for growth investments.	Affects long-term survival and ability to capitalise on opportunities.	Improved financial management and planning.
Dependency on transit traffic	Volatile revenue due to dependency on specific customer segments.	Increased vulnerability to market conditions.	Long-term risk to financial stability and growth.	Business diversification strategies.
High finance costs	Erodes profit margins.	Limited resources for re-investment in growth.	Long-term financial sustainability is at risk.	Refinancing and better debt management.

Material matters *(continued)*

Material matter	Short-term impact on value creation	Medium-term impact on value creation	Long-term impact on value creation	Strategies for addressing impact
Sustainability	Increased operating costs.	Regulatory risks and compliance costs.	Long-term environmental impact and potential for regulatory exclusion.	Sustainable business practices.
High-performance culture	Immediate improvement in productivity and morale.	Attracts quality talent, positively impacting growth.	Sustained competitive advantage and market leadership.	Employee development and recognition programmes.
Stakeholder engagement	Short-term gains in trust and cooperation.	Ongoing collaborations can unlock new opportunities.	Strong, long-term relationships with key stakeholders.	Active and open stakeholder communication.
Integrated systems	Immediate efficiency gains.	Simplifies scaling and expansion.	Enables long-term resilience and adaptability.	Investment in systems integration and training.


Read about our strategy on page 27.

From combatting poor economic growth and high finance costs to driving a high-performance culture and ensuring robust stakeholder engagement, every challenge is viewed as a touchpoint for innovation and improvement. Through the synchronised efforts across various departments, we aim to advance from short-term stabilisation to long-term value maximisation. Our strategies to address each material matter are designed not merely as stop-gap solutions but as catalytic mechanisms to unlock new value dimensions in the railway sector.





Risk management

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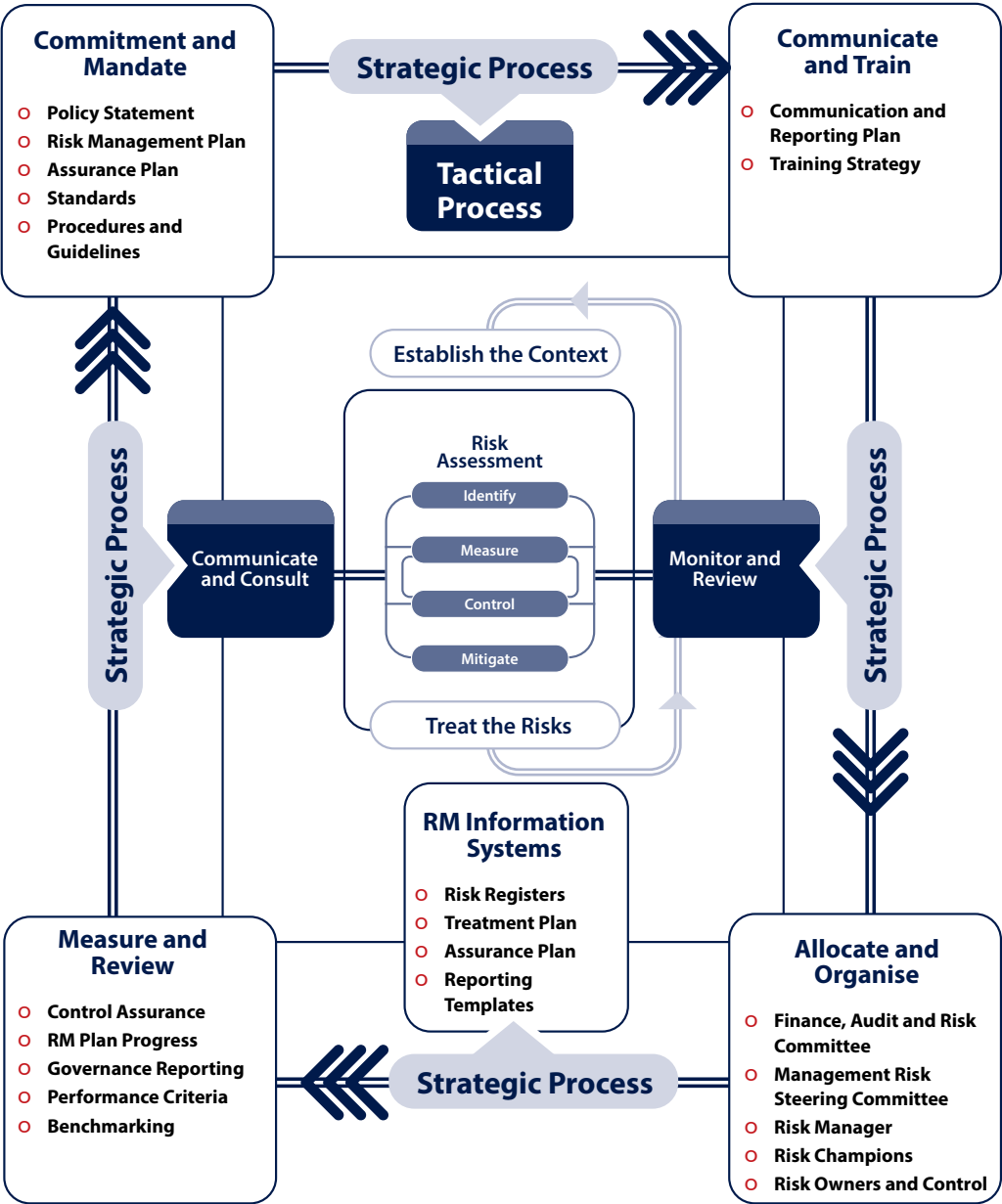
Risk management frameworks are deeply integrated into our organisational fabric and are designed to preemptively address the spectrum of economic, social, environmental, and legislative challenges. Our risk management is aimed at safeguarding our operations, assets, and people, while enhancing risk awareness across all levels of the organisation.

As a key player in the regional railway industry, risk management is a core component of our organisational culture. Our objectives are clear: to internalise risk management in line with best practices, stay ahead of the curve in a changing world, and protect our workforce and assets from potential harm. This commitment is operationalised through a well-defined structure of roles and responsibilities, continuous learning, and resource allocation towards priority risks. By embedding risk management into every facet of our business – from planning and partnerships to daily operations – we ensure that every employee at ESR is equipped and vigilant in maintaining the highest standards of safety and efficiency.



Risk management *(continued)*

OUR RISK MANAGEMENT PROCESS



Our risk management objectives

- Embed risk management into the culture of the organisation.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing economic, social, environmental, and legislative requirements.
- Prevent injury, damage, and losses, and reduce the cost of risk.
- Raise awareness of the importance of risk management among everyone involved in the delivery of our service.

Objectives achieved through

- The establishment of clear roles, responsibilities, and reporting lines for risk management within the organisation.
- Providing opportunities for shared learning on risk management across the organisation.
- Offering a framework for allocating resources to identified priority risk areas.
- Training employees on the importance of effective risk management as part of their daily work.
- Incorporating risk management into business planning.
- Incorporating risk management into partnership arrangements, project and change management, and contracts.
- Regular measurement, reporting, and communication of risk management performance.



Risk management *(continued)*

OUR TOP RISKS

#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
1	Lack of funding to support the strategy	<ul style="list-style-type: none"> • Cashflow challenges to support financing • High gearing • High cost of capital/ borrowing • Stringent requirements from funders • Lack of skills to put together a robust, bankable business case • Absence of bankable business cases 	<ul style="list-style-type: none"> • Business development 	<ul style="list-style-type: none"> • Financial loss • Loss of market share • Loss of business • Stagnant growth 	<ul style="list-style-type: none"> • Investment policy • PEU Guarantee fund • Overdraft facility 	<ul style="list-style-type: none"> • Identify and develop the skills for writing bankable business cases, EOI, tender specifications • Ringfence the projects as profit centres in accordance to their merits and demerits • Explore other sources of funding (PP) • Develop an approved PPP framework in line with Government provisions • Review the current projects to be implemented up to March 2024 and assess their profitability and capital requirements



#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
2	Strategy implementation failure	<ul style="list-style-type: none"> • Lack of ownership and alignment of the strategy at different levels of the leadership • Lack of project management philosophy • Annual budget not aligned to strategy • Strategy launched during political changes in Eswatini • Limited resources and tools to support the strategy (Human Capital, financial) • Lack of consequence management within ESR 	<ul style="list-style-type: none"> • Operation and business excellence 	<ul style="list-style-type: none"> • ESR remains stagnant • Failure to attain ESR Vision • Failure to derive value • Failure to attract new customers 	<ul style="list-style-type: none"> • Strategy document • Board oversight • Annual budget • Marketing plan • Stakeholder engagement plan • Strategy committees • Procurement procedures 	<ul style="list-style-type: none"> • Adequate communication and reviewing of progress on strategic initiatives • Align annual budget to strategy • Conduct stakeholder engagement for key stakeholders in line with stakeholder engagement strategy • Provide adequate resources in terms of Human Capital and financial to implement the strategy • Align organisational structure to the strategy • Include consequence management as part of the balance scorecard
3	Failure to respond to major accidents	<ul style="list-style-type: none"> • ESR has depleted material stock to support recovery processes (rails) 	<ul style="list-style-type: none"> • Operational and business excellence 	<ul style="list-style-type: none"> • Loss of business • Delayed train movement • Reputational damage • Delayed business recovery • Loss of customers 	<ul style="list-style-type: none"> • Inventory management policy 	<ul style="list-style-type: none"> • Provide budgetary resources for the procurement of rail

Risk management *(continued)*

OUR TOP RISKS *(continued)*

#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
4	Capacity constraints to support ESR business (rolling stock)	<ul style="list-style-type: none"> Rolling stock available not sufficient to support customer needs Non-alignment between business requirements and rolling stock (planning) Increased locomotive failures 	<ul style="list-style-type: none"> Business development 	<ul style="list-style-type: none"> Loss of customers Loss of revenue Loss of business Reputational damage 	<ul style="list-style-type: none"> Business agreements with TFR Maintenance plan Procurement procedures 	<ul style="list-style-type: none"> ESR plans to inject more assets through procurement (40 CALJ Wagons and one locomotive) Director Operations and Technical Services to establish locomotive requirements to support ESR business, which will be an input from Business Development Consider temporal leasing while SR001 goes for refurbishment (one locomotive is already available, the other term sheet has been signed with TE, awaiting contract) SR 002 (wheelsets out for profiling) will be fully operational by 30 September 2023



#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
5	Catastrophic rail failure	<ul style="list-style-type: none"> • Overweight equipment running on the rail track (43, 44D class) • High utilisation rate of the track vs maintenance on the track • Aging assets and infrastructure • Small size of rail (48kg) as opposed to 60kg • Ad hoc maintenance as opposed to routine maintenance of track (only attend to emergencies) 	<ul style="list-style-type: none"> • Operational and business excellence 	<ul style="list-style-type: none"> • Derailments • Increased speed restrictions • Increased transit times • Loss of revenue • Damage to equipment • Increased maintenance costs 	<ul style="list-style-type: none"> • Maintenance plan • IPAC 	<ul style="list-style-type: none"> • Develop and implement an intensive maintenance programme for the track • Rehabilitate the track and upgrade from 48kg to 60kg rail
6	ESR fails to take advantage of global initiatives (sustainability standards, social, legal, governance, and environment)	<ul style="list-style-type: none"> • Failure to adapt to changes • Absence of metrics of measurement 	<ul style="list-style-type: none"> • Business development 	<ul style="list-style-type: none"> • Loss of business • Loss of market share 	<ul style="list-style-type: none"> • Corporate planning unit 	<ul style="list-style-type: none"> • Identify global initiatives that have an effect on ESR • Develop metrics for measurement • Implementation of the above



Risk management *(continued)*

OUR TOP RISKS *(continued)*

#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
7	Failure to meet customer needs and expectations	<ul style="list-style-type: none">• Absence of cargo tracking• Limited communication and feedback between ESR and customers• Limited visibility to customers• Non-alignment between business requirements and rolling stock• Unreliable train service• Reliance on other railways for other services (rate, locomotives, port space/ congestions)• Internal processes not responsive to customer demands	<ul style="list-style-type: none">• Operational and business excellence	<ul style="list-style-type: none">• Rail to road migration• Customer complaints• Financial loss• Reputational damage	<ul style="list-style-type: none">• Customer surveys• Marketing plan• Business agreements with other railways• Train warrant system• Sprint system• Customer service clerk	<ul style="list-style-type: none">• Procure and install real time cargo tracking• Activate the web-based tracking on the ESR locomotives• Provide alternative communication systems• Develop an action plan to address the customer complaints• Finalise the review of the marketing plan and strategy• Provide adequate rolling stock to service the customers• Review and improve ESR processes to ensure they respond to customer needs and demands



#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
8	Diversion or reduction of transit traffic from Eswatini (magnetite, rock phosphate, coal, etc.)	<ul style="list-style-type: none"> • ESR's current operating model (delays in taking over the trains from TFR) • Initiatives taken by CFM to have double lines • Improvements at Maputo port • Delays/ congestions at Richards Bay port • Increased dwell times at Golela and Komatipoort • Increased turnaround times for wagons to reach the mines at Phalaborwa • Increased transit times between Komatipoort and Richards Bay • Possible privatisation of certain departments within TFR • Non-engagement of the Roads Authority • Construction of a truck-only crossing at Komati border post (which will improve efficiencies for trucks crossing the border) 	<ul style="list-style-type: none"> • Business development 	<ul style="list-style-type: none"> • Loss of revenue • Loss of business • Reputational damage 	<ul style="list-style-type: none"> • Business agreements with TFR • Interface meetings • Operational meeting between TFR and ESR 	<ul style="list-style-type: none"> • Explore opportunity of hauling from Komati to Maputo port by implementing the Hlane junction to take advantage of Maputo traffic • Improve operating model (planning, communication, and ensuring crews arrive on time before trains) • Participate in regional initiatives (implement the 160 wagon train and ESRL project) • Conduct stakeholder engagement with TFR on challenges faced within the corridor • Improve fuel controls (locomotives and fuelling points) • Provide adequate telemeters for the corridor

Risk management *(continued)*

OUR TOP RISKS *(continued)*

#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
9	Political risk (industrial actions, civil unrest, vandalism, sabotage)	<ul style="list-style-type: none"> Political unrests as a result of elections in Eswatini and South Africa Community unrest (Nagel, Phalaborwa) Delays in finalising train operating model Delayed conclusion of ER issues Industrial unrest within TFR 	<ul style="list-style-type: none"> Operational and business excellence 	<ul style="list-style-type: none"> Loss of business Loss of customers Damaged infrastructure and equipment Operational delays 	<ul style="list-style-type: none"> ESR security officers Security plan 	<ul style="list-style-type: none"> Through the Safety and Security function, ESR will monitor developments within ESR and those from our neighbouring countries Develop security and business contingency plans Finalise and implement the proposed operating model Conclude pending ER issues with social partners as per agreed timelines
10	Dependence on one service provider for track maintenance	<ul style="list-style-type: none"> No internal capacity (skills and resources) to maintain the track 	<ul style="list-style-type: none"> Operational and business excellence 	<ul style="list-style-type: none"> Loss of operating licence Loss of customers Increased maintenance cost Derailment Loss of revenue Operational delays 	<ul style="list-style-type: none"> Business agreements with TFR and CFM 	<ul style="list-style-type: none"> Option 1 <ol style="list-style-type: none"> Establish a model of insourcing IPAC and present to EXCO for approval Prepare a Board paper for insourcing for approval Implement the recommendations of the Board Enter into negotiation with IPAC Option 2 <ol style="list-style-type: none"> After expiry of contracts, go out to tender for other service providers Option 3 <ol style="list-style-type: none"> Long-term upon completion of 1 above – build capacity in-house to support track maintenance

#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
11	Extensive damage to rail infrastructure	<ul style="list-style-type: none"> • Inclement weather patterns (climate change) • Washaways • Broken rails 	<ul style="list-style-type: none"> • Operational and business excellence 	<ul style="list-style-type: none"> • Derailments • Financial loss • Increased replacement costs of infrastructure • Claims and litigation from loss of customer cargo 	<ul style="list-style-type: none"> • Maintenance plan • IPAC 	<ul style="list-style-type: none"> • Conduct rail destressing during summer periods • Cleaning and clearing of storm water drains • Adequate cleaning of the culverts • Assess the condition of the culverts within the ESR network and replace those that are damaged
12	Change management	<ul style="list-style-type: none"> • High level of resistance • Lack of understanding of changes by employees • Lack of a change management model • Lack of training on change management model • Lack of ownership and alignment of the strategy at different levels of the leadership • Limited resources and tools to support the strategy (Human Capital, financial) 	<ul style="list-style-type: none"> • Human Capital development 	<ul style="list-style-type: none"> • Haphazard implementation of processes • Outpaced by competitors • Irrelevant to prevailing business requirements • Increase wastage and increased costs 	<ul style="list-style-type: none"> • SHEQ change management process 	<ul style="list-style-type: none"> • Engage with employees at multiple levels (CEO road shows, MANCO) • Conduct stakeholder engagements with social partners • Put in place a formal change management model/structure • Implement the stakeholder engagement strategy • Provide training and awareness for the change management model
13	Loss of ESR immovable property	<ul style="list-style-type: none"> • Cessation properties (loan facility of E105 million) • Stringent loan agreements 	<ul style="list-style-type: none"> • Operational and business excellence 	<ul style="list-style-type: none"> • Property loss • Possible litigation • Reputational damage 	<ul style="list-style-type: none"> • Valuation report • Asset register • Investment policy and strategy 	<ul style="list-style-type: none"> • Enter into negotiations for a possible review of the loan agreement

Risk management *(continued)*

OUR TOP RISKS *(continued)*

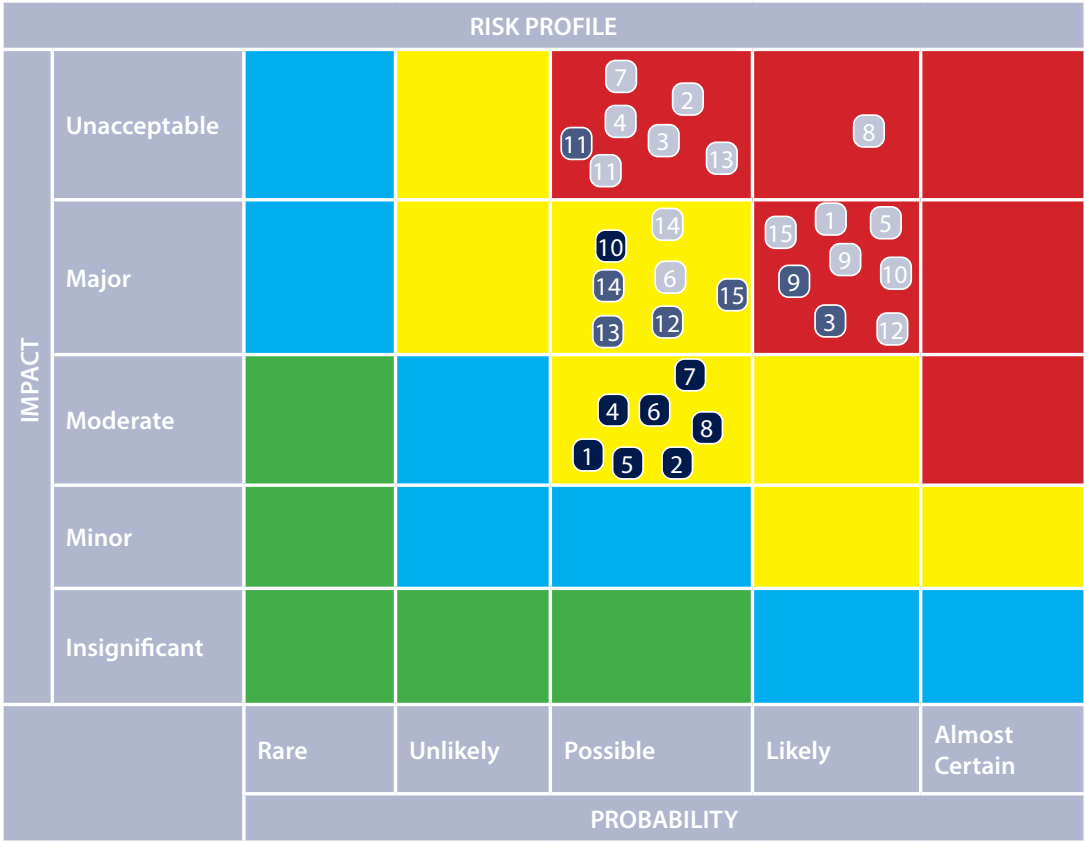
#	Risk	Cause	Strategic objective	Impact	Risk control	Mitigations
14	Failure to secure funding for ESRL construction	<ul style="list-style-type: none"> Limited appetite from funders Funders may fail to meet due diligence requirements Both organisations do not have a healthy balance sheet to attract funders or be able to fund off balance sheet Local funders do not have the capacity to fund the project Foreign policy (China/Taiwan) Insurers/ funders are reluctant to take the project at risk 	<ul style="list-style-type: none"> Business development 	<ul style="list-style-type: none"> Financial loss Loss of market share Loss of business Stagnant growth 	<ul style="list-style-type: none"> Investment policy Feasibility study in place PEU Guarantee fund Draft MOA between the two Governments 	<ul style="list-style-type: none"> Completion of the procurement process of the potential funder
15	Failure to build and sustain a high performance culture	<ul style="list-style-type: none"> Limited resources and tools to support the strategy (Human Capital, financial) 	<ul style="list-style-type: none"> Human Capital development 	<ul style="list-style-type: none"> ESR remains stagnant Failure to attain ESR Vision Strategy failure Poor service delivery 	<ul style="list-style-type: none"> HR policy and procedures 	<ul style="list-style-type: none"> Invest in people by providing adequate system – Financial and Human Capital resources – to support implementation of strategy Align organisational structure to strategy (implementation of phase 2 of the organisational review) Implement culture survey results (culture change)


EMERGING RISKS


Emerging risk	Mitigations
Transportation of illegal substances on trains	<ul style="list-style-type: none"> • Improve security surveillance on trains at departure points (interface points with CFM,TFR and Eswatini)
Theft of rail on ESR dormant lines (e.g., Hlane)	<ul style="list-style-type: none"> • SHEQM to engage the CEO for a decision by ESR to uproot the rails on dormant lines
Non-availability of a facility for disposal of medical waste at Mpaka Clinic (health and safety risk)	<ul style="list-style-type: none"> • The Nurse in Charge will engage Works and Electrical to design and construct storage for medical waste. This will be shared with SHEQ Department to ensure adherence to requirements • Quotation has been sought and included in 2023/2024 budget • The Nurse in Charge will explore entering into strategic alliances with Simunye/Mhlume Sugar Companies who have the disposal waste facilities to see if they can formalise agreements with ESR
Loss/theft of fuel	<ul style="list-style-type: none"> • Develop a collaborative User Requirement Specification and Technical Specification • Deploy additional security officer during the day • Increase visibility of security • Increase supervision of fuel attendants • Provide Clearview fencing for the tanks with two gates for safety • Install and monitor live CCTV at the fuelling point • Install temperature-controlled flow meters – technical specification • Improve stock management controls • Install automatic gauging systems inside the fuel tank • Calibration of flow meters (BI or Annual)
Threat of coal business (fall of coal price, client not favouring Eswatini, lack of locomotives, lack of personnel to support coal business)	<ul style="list-style-type: none"> • Continuous stakeholder engagements (coal price projection is that it will be steady for the next 2 to 3 years and ESR has increased rate by 7% for 2023/2024) • ESR will continue to monitor global incremental demand for coal as it has shifted from Europe to Asian markets • ESR will continue to monitor transit coal performance and concerns will only be observed once export falls below 100 000t monthly • Continuous monitoring of the changes in the international regulations/laws affecting coal business • ESR plans to inject more assets through procurement (40 CALJ Wagons and one locomotive)


Risk management (continued)

RISK HEAT MAP



 Pre-assessment

 Post assessment

 No movement

Top 15 strategic risks

1	Capacity constraints to support ESR business (rolling stock)
2	Political risk (Industrial actions, civil unrests, vandalism, sabotage)
3	Dependence on one service provider for track maintenance
4	Diversion or reduction of transit traffic from Eswatini (Magnetite, Rock Phosphate, coal etc)
5	Lack of funding to support the strategy
6	Strategy implementation failure
7	Failure to respond to major accidents
8	Failure to meet customer needs and expectations
9	Catastrophic rail failure
10	Failure to secure funding for ESRL Construction
11	Extensive damage to rail infrastructure
12	Change Management
13	Loss of ESR immovable property
14	ESR fails to take advantage of global initiatives (sustainability standards, social, legal, Governance and environment)
15	Failure to build and sustain a high-performance culture

Our business



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65 Human resources and development



OPERATIONS, TECHNICAL, AND ENGINEERING

This section unpacks the intricate workings of ESR, showcasing how our innovative technical solutions, engineering prowess, and efficient operational strategies collectively drive the Company's success and resilience in a demanding industry.

Summary of operations key indicators

Indicator	2020/21	% Change	2021/22	% Change	2022/23	Avg. Change
Total Traffic Conveyed	6 398 401	(4.9)	6 084 641	(2.4)	5 939 043	4.83
Freight Revenue (Millions)	264.375	(6.5)	247.275	16.1	287.155	(3.33)
Transit Tonnages	6 008 284	(3.5)	5 797 966	(3.2)	5 614 545	9.84
Transit Revenue (Millions)	200.389	1.6	203.515	18.1	240.390	8.06
Exports Tonnages	200 727	(17.8)	164 944	34.0	220 948	(1.65)
Exports Revenue (Millions)	25.975	(20.4)	20.68	17.1	24.212	(25.33)
Imports Tonnages	189 390	(35.7)	121 731	(14.9)	103 550	(20.78)
Imports Revenue	38.011	(39.3)	23.080	(2.3)	22.553	19.72
Operating Expenses (Millions)	136.592	9.6	149.737	29.8	194.37	3.46
Operating Ratio %	51.7	8.9	60.6	(2.0)	59.4	(8.24)
Locomotive Hire (Millions)	10.930	(25.2)	8.172	8.7	8.887	(74.42)
Wagon Hire (Millions)	4.962	(23.7)	3.786	(125.1)	(0.952)	1.08
TFR Loco Availability %	92	1.1	93	1.1	94	48.03
ESR Loco Availability %	36.1	110.5	76	(14.5)	65	(3.29)
Total Number of Employees	385	(4.4)	368	(2.2)	360	0.00



Our business *(continued)*

OPERATIONS, TECHNICAL, AND ENGINEERING *(continued)*

Civil engineering overview

During the year under review, the line availability for The Permanent Way Section was 70% of the time due to Cyclone Freddy, that led to two serious washaways. The two major washaways were on the Mhlume 61km on the Northern line and Siweni Station on the Eastern line, where culverts were washed away. The maximum amount of timeline unavailability was eight days for the Mhlume washaway and for Siweni it was easily resolved. Other causes were due to broken rails, derailments, total occupancy, and other defects. A total of 19 total occupancy, 52 broken rails, nine kickouts, and 16 bad slacks were the total defects recorded during the period under review.

A total of 132 speed restrictions – including those that had not been lifted from the previous year – were noted during the year. A total of 108 new speed limits were imposed during the year and 103 speed restrictions were uplifted. Bad slacks, broken rails, and bad kickouts were the main reasons for the speed restrictions. Most of the speed restrictions were imposed on the Eastern Line section.

A total maintenance accumulative cost for the Works and Electrical section for the year amounted to E25.4 million. The demand for maintenance tends to grow as the year progresses. The maintenance on the tenant's houses and utilities in the houses included geysers repairs, damaged dosing pumps as well as transformers and replacement of timber poles.

Signals and telecommunications overview

Our analysis of availability of the staff saw a total of 3 508 man-days being present while a total of 459 days were taken as annual leave. A total of 33 days were spent on workshops while a total 19 were taken as sick leave. There were three days between November and December where staff members were absent without leave.

There was a total of 129 hours of Singles Overtime this past financial year compared to 198 hours the previous year. There were also 410 hours of Double Overtime compared to 369 hours the previous year. This was due to the attendance of emergencies and callouts in response to operational train requirements.

The Sectional Budget Expenditure had an overall saving of about E2 million, which can be attributed to non-expenditure of accounts such as the RTOS Contract Maintenance and Training that could not be expedited due to unforeseen circumstances. The other factor was reduced staff complements. Telephone bills that include payments for telephones, cell phone bills, and data connectivity exceeded the budgeted figures by almost E230 million over the year.

The average inherent S&T infrastructure availability was 97.5% against the targeted 98.5% for the year. The Mean Time Before Failures was at 1 743 hours compared to the target 2 500 hours, while the Mean Time to repair the attended emergencies and failures was higher than the target performance at just above 976 hours compared to 700 hours.

The Time Delay Per Thousand Trains was an average of 33.29 hours against a target of 50 hours. The Fault Density over the financial year was an average of 0.39 units against a target of 0.40 units. The Mean Time Between Failures was 1 410 hours against a target of 2 500 hours. This is mostly attributed to more frequent failures that are due to failures with our signaling system at Phuzumoya junction which is almost obsolete. This was also confirmed by a non-conformance at the Junction that will have to be duly closed over the next year before the next audit. The Meantime to Repair was an average of 2 726 minutes against the set point of 700 hours, which means it took us longer to resolve failures due to staff shortages that also affected the inherent availability of our systems to train operations, which ended up at 97.53% against a set target of 98.5%.

The Sectional maintenance, repairs, and emergency activities saw a total of 855 of activities that include preventive maintenance, response to faults, and emergencies including projects with the highest of them being attended to at Mpaka, our main operation station, at 131. The least number of activities were for the Matata Radio Highsite, which were mainly the planned activities, at six. The response times to faults indicate that three activities took less than two hours to respond to, while 287 of them took more than two hours, and the highest (332) took just less than four hours.

The projects below were successfully being implemented and commissioned by the section:

- Sidvokodvo Weigh-In-Motion Weighbridge
- Visual Display Unit Track Warrant System

The weighbridge was successfully installed, calibrated, and commissioned by the Service provider AutoTech by November 2022, and is awaiting verification by the Ministry of Trade under the Department of Metrology.

This Visual Display Unit Track Warrant System was also technically commissioned in November 2022 and awaited the official commissioning after the completion of the necessary training of the essential Train Control Officers, after several of them were transferred, retired, or resigned.

HUMAN RESOURCES AND DEVELOPMENT

This section highlights our commitment to fostering a skilled and motivated workforce, underlining how strategic talent management and continuous employee development are pivotal to ESR's growth and operational excellence.

Employee relations

Eswatini Railways operates in a unionised environment where currently, 60% of ESR employees are unionised, 14% affiliated to the Staff Association, while the remaining 26% are not members of either formation. Healthy and organisational value-based employee relations are paramount under the circumstance to enhancing our corporate culture and a high-performing organisation.

Employee relations between management and the bargaining groups has immensely improved as a result of the robust engagement strategy approach. To this end, only one dispute was recorded and/or filed by the labour formations on an alleged unfair labour practice on "equal job, equal pay". Thankfully, the matter was dismissed by the Courts for lack of proper ventilation.

The stakeholder engagement approach adopted by ESR on mitigating Industrial Relations issues saw the Cost of Living (COLA) salary negotiations for the 2022/23 financial year with both the Eswatini Railways Union and our Staff Association being concluded swiftly, with a 4% COLA agreement effective on 1 April 2023.

As a barometer to test the efficiency of the Industrial Relations approach, an Organisational Culture and Engagement survey was undertaken, aimed at weighing both efficiency of the initiatives in addressing the findings of the previous exercise, and effectiveness of the strategies applied in mitigating and/or addressing the recommendations. As part of the findings, communication strategies were found to have improved as evident in the healthy relations reported above. There is a need to improve communication between departments, sections, and employees, especially on the Company values. There is also room for improvement in capacitating employees on ESR values and policies.

To this end, the "Did you know" information sharing platform, aimed at bridging the insufficiency knowledge gap on ESR values and key policies, has been launched. Publications on a variety of informative topics are done on a weekly basis. We are striving to upskill ESR Leadership on corporate governance and communication skills and build better managers as part of our ongoing journey of human capital development.

Corporate services

Department	Number of Employees
Corporate Services	28
Engineering	66
Finance	28
CEO's Office	11
Operations & Marketing	225
ESRL	2
TOTAL	360

Staff complement per department as at 31 March 2023

The financial year 2022/2023 ended with a YTD headcount of 360 against a budget of 374. Management by gender is 83% male and 17% female.

Indicator	2022/2023
Employees	360
YTD Turnover	6.76%
Employee Turnover Rate:	
New engagement	34
Contract termination	4
Resignation	8
Retirements	7
Dismissal incapacity	1
Deaths	3
Mutual separation	1
Early retirement	3

Employee turnover in 2022/23

Our business *(continued)*

HUMAN RESOURCES AND DEVELOPMENT *(continued)*

Corporate services *(continued)*

Highlights for the financial year 2022/23:

- The approval of phase 1 of the reviewed organisational structure by the Board putting in place four key departments, namely:
 - Corporate Services (former HR now incorporates SHEQ)
 - Finance
 - Operations & Technical Services (merger of Operations and Engineering)
 - Business Development (new, takes over Marketing and Commercial)

Challenges for the financial year 2022/23:

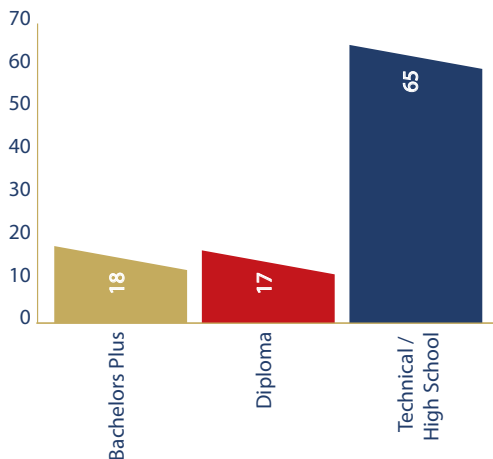
- The passing of three ESR employees:
 - Legal Advisor and Board Secretary
 - Personal Assistant
 - Messenger Cleaner
- The departure of two EXCO members:
 - Director Engineering
 - Chief Financial Officer

- Leadership summit for emerging leaders with a focus on strategic agility, driving organisational responsiveness and performance.
- Railway decarbonisation for Sub-Saharan countries – the training was to share experiences and discuss with delegates diverse strategies and policies on the role the railways play in decarbonising transport through shifting transport from more polluting modes of transport as produced by road and air.
- Long-term training: The Mechanical Artisan successfully completed the two-year training course on Diesel Electric fitting.

Due to cash flow challenges experienced during the 1st quarter of the financial year due to wash-away, the following training plan could not be fully executed.

- Portuguese language training: The intended audience (Train Operations Personnel) could not fully participate in these lessons because of work engagements and connectivity issues as lessons were conducted online.

Workforce qualification levels



Training and development

The approved budget for the year stood at E3.3 million, and was apportioned to the different sections as per the submitted plan of critical trainings. However, budget utilisation was 59% overall for the year. The development of leadership in the organisation is still a focal area and eight managers were presented with an opportunity to participate in leadership-centred trainings.

Employee development approaches

On-the-Job-Training (OJT) – the Train Operations section continues to use this model of employee development in the pairing of Junior Train Drivers with Senior Train Drivers with more experience as part of continuous improvement on the job.

Talent Development – Managers were introduced and trained on talent development with a toolkit presented to them for the identification of talent in their teams and how to go about the exercise. Talent mapping for succession planning for critical roles was done with all Head of Sections. Returns of the plans was not positive.

Employee assistance programme

Eswatini Railways has a gymnasium at the Mpaka station that caters for the physical activity needs of majority of ESR employees as they are stationed at Mpaka. The gym has a capacity of 30 people per session and is successfully run and managed by a gym instructor who mainly conducts group classes and assists members individually. The gym is open to both ESR employees and the public and has membership of between 20 and 30 members per month.

ESR collaborated with Intel Wellness to run a weight loss competition for the winner to receive a cash prize. Employees were encouraged to utilise their wellness package in their medical aid, which allows them to do annual health screening for possible early intervention for the rising NCDs including diabetes, hypertension, and cervical cancer.

The Employee Assistance Programme offers basic counselling services for all employees inhouse with the help of the EAP Officer, clinic staff, or by the wellness champions, who are wellness representatives at station level. Basic counselling is provided internally to assist employees to get immediate mental health support, however, employees may further be referred to mental health specialists for additional assistance. Counselling services may be accessed by individuals through self-referral or by recommendation by their supervisor.

Employees that most commonly require trauma counselling are the train crews post train incidences, to assist them to better deal with trauma. There is also a sizeable number of employees that are grappling with personal challenges in their personal, finances, relationship problems as well as various forms of substance abuse. In cases where employees require psychotherapy, the EAP refers employees to Eswatini Business Health and Wealth, a private sector wellness NGO that collaborates with corporate companies for employee wellness support, who have in-house therapists or to a private clinical psychologist.

The Rail Hope is a Christian organisation within the organisation that affiliates to Trail Hope International, a Christian movement within railway organisations worldwide driven by employees for spiritual upliftment. The Annual ESR Prayer is the highlight of the organisation. At the beginning of every ESR financial year, all employees are gathered at the Mpaka stations to pray and intercede for a fruitful year. The EAP also has the option to refer employees for counselling by the Rail Hope Executive members, who are active in ministry.

To promote unity amongst employees, the EAP affords employees the opportunity to attend corporate events such as Women or Men empowerment conferences. The Women in Rail event was the highlight of social events hosted by the EAP, as the majority of ESR women gathered under one roof to welcome spring and empower each other through the sharing of personal journeys by some of the influential women in the company.

To raise awareness on health topics, the EAP has a calendar that has a specific theme for every month. These themes are global and include Valentine's Day, the international women's day, men's health month, breast cancer awareness month, mental health awareness month, etc. On Valentine's Day, all employees received treats to complement the spirit of love, which has been associated with giving. The EAP ran a competition where the winner won a gift hamper and complementary back treatment by the qualified Physiotherapist EAP Officer.

Performance management system

The 2022/23 financial year saw the end of the Blue Ocean Strategy after the three-year implementation period. This strategy had been cascaded down from corporate level to the shopfloor through the Balanced Score Card performance management system. While the 2022/23 performance management cycle commenced late in the second quarter of the financial year, by the end of the last quarter all departments had performance scorecards and 99% of employees had performance scorecards.

Due to delays on commencement of the cycle, mid-year performance evaluations were unattainable and a decision to omit the stage and place more emphasis on year-end performance evaluations was therefore taken.

The Performance Management System policy ushered in reforms in the reward for performance duly endorsed by the Board. There was a realisation that until such time that good performance is rewarded, very few employees will be motivated to go above and beyond the call of duty, and this propelled management to adopt the meritorious pay principle. The thrust of the reform is providing means through which hardworking employees will reap financial rewards and growth through migrating along the salary scale by means of their performance rating.

Wellness and health care services

Alleviation of non-communicable diseases (NCD) interventions:

- Through using annual medical surveillance to screen all safety critical employees and the necessary follow-ups on those declared unfit due to uncontrolled NCDs.
- Initiation of an outreach programme to visit ESR-remote stations and provide free NCD screenings and curative services to our employees and their families.
- Partnered with Luke Commission (a local leading international faith-based health facility that played a huge role in providing excellent health care during the COVID-19 pandemic), Ministry of Health, and independent practitioners to provide health education with the emphasis on NCDs to all ESR stations.
- Partnered with Ministry of Health to provide free medical services to all employees and general population living with NCDs.

Community primary health care (CSI):

- Mpaka Clinic provides primary health care to both employees and members of the local community at a nominal fee that is much more affordable compared to other privately-owned clinics.
- ESR partnered with Luke Commission for the provision of free health services to five stations (Mbabane station excluded). During this campaign, the nearby communities were invited to access the services for free.

Our financial performance

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OUR FINANCIAL
PERFORMANCE



HIGHLIGHTS

ESR performed better in 2023 vs 2022, generating a E23.5m profit before tax vs a E16m loss in 2022.

Actual revenue generated was 7% below budget due to periods of inactivity in the last quarter.

Prudent spending resulted in total expenditure being 2% below budget for the year.

Budgeted profit of E24.8m before tax was missed by a 5% margin.

Loan commitments are met as and when they fall due but the PSPF loan has to be rolled over for another term. Management is preparing to negotiate the rollover.

Management is co-ordinating efforts to improve the working capital situation. This includes prioritising expenditure that will result in the improved availability of trains, increased number of trips, quick turnaround times in terms of rates negotiations and their implementation, amongst other things.

Internal control improvements including process reviews will also be effected, alongside other organisational review processes.

Our financial performance *(continued)*

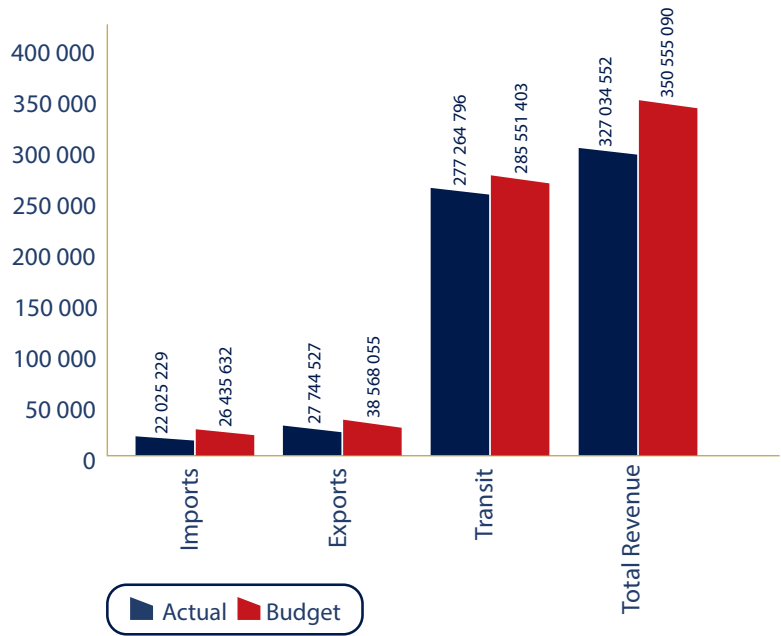
COMPREHENSIVE INCOME

	2023 E	2022 E	% CHANGE
Revenue	327 034 552	247 275 373	32%
Other income	20 393 604	17 795 723	15%
Operating expenses	(194 370 231)	(148 656 128)	31%
Administration expenses	(128 709 609)	(123 681 513)	4%
Operating profit/(loss)	24 348 316	(7 266 545)	435%
Finance income	20 768 439	17 023 387	22%
Finance costs	(21 599 951)	(25 933 264)	-17%
Net finance costs	(831 512)	(8 909 877)	-91%
Profit/(loss) before income tax	23 516 804	(16 176 422)	245%
Income tax credit	(12 346 010)	3 386 374	ESR has an estimated E136 million tax loss available for set-off against future taxable income
Profit/(loss) for the year	11 170 794	(12 790 048)	187%
Equity investments at fair value through other comprehensive income – net changes in fair value	(1 250 050)	750 000	
Total comprehensive income/(loss)	9 920 744	(12 040 048)	182%



REVENUE

Actual vs budget revenue (E)



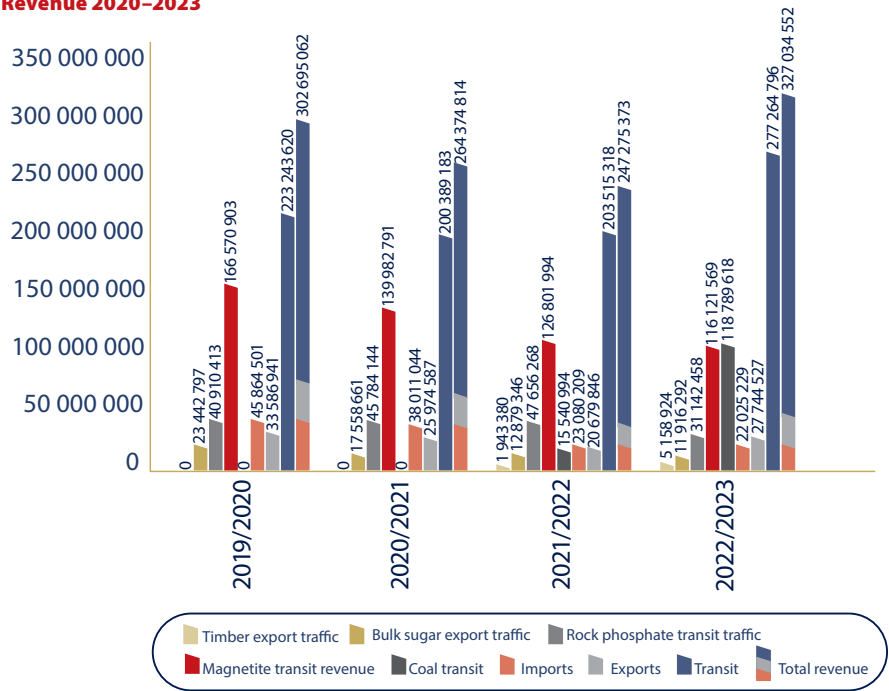
1. **Total Revenue** – 7% below budget due to business disruptions in February which resulted in loss of revenue.
2. **Transit Revenue** – 3% below budget. Coal and containers performed more than budget. Magnetite 18% and Rock phosphate 38% below budget.
3. **Exports Revenue** – 28% below budget. Sugar 29% and Canned fruit 52% below budget due to lack of TFR locomotives from Golela to Durban. Container exports only commodity that was above budget.
4. **Imports Revenue** – 17% below budget. Cement 34% and Fuel 30% below budget. Import containers above budget.



Our financial performance *(continued)*

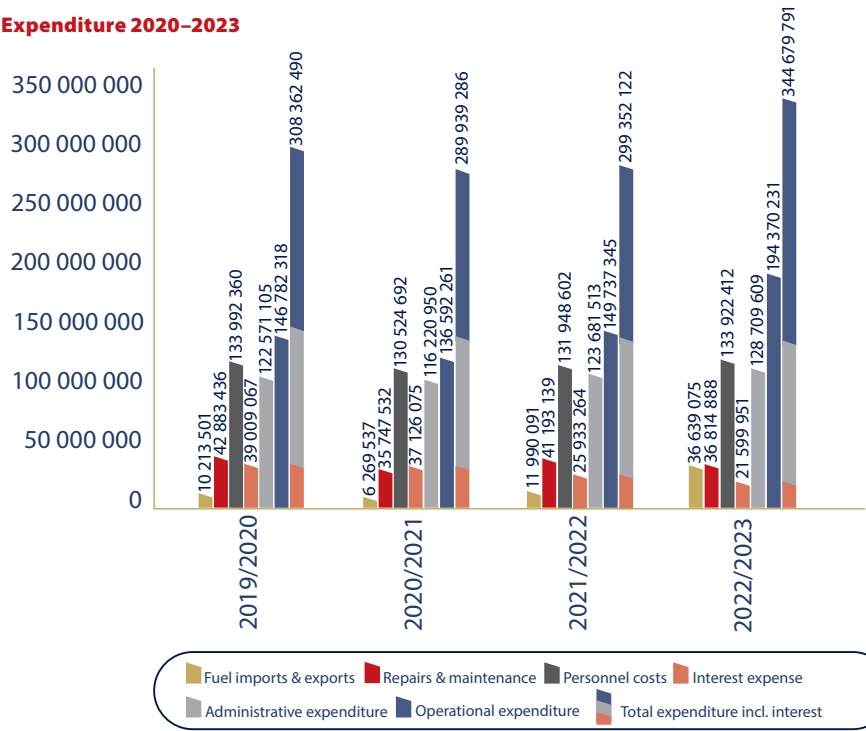
REVENUE *(continued)*

Revenue 2020–2023



EXPENDITURE

Expenditure 2020–2023



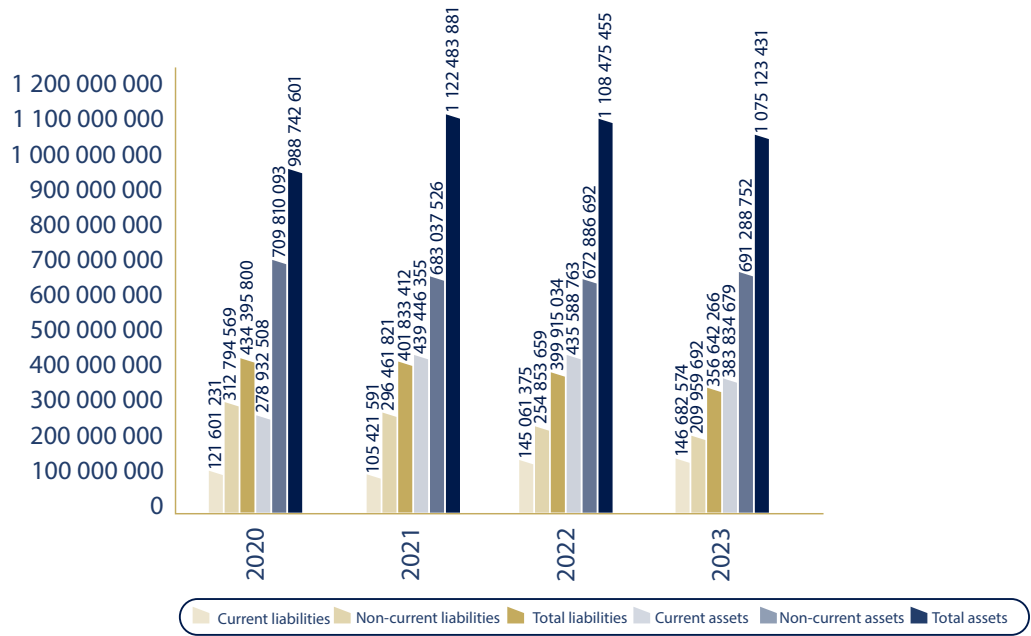
- 1. **Total Expenditure** increased by 15% from 2022 which is not abnormal considering 32% increase in revenue.
- 2. **Operational Expenditure** which includes wagon and locomotive hire charges, fuel, heavy plant equipment, infrastructure, etc increased by 30%.
- 3. **Administrative Expenditure** increased by 4%. Admin expenditure include salaries, village maintenance, software, insurance, cleaning, security etc.
- 4. **Repairs and Maintenance** decreased by 11%. Prior year included village houses refurbishment.
- 5. **Fuel Imports and Exports** included in Operational Expenditure above increased by 206%.



Our financial performance *(continued)*

FINANCIAL POSITION

Financial position 2020–2023

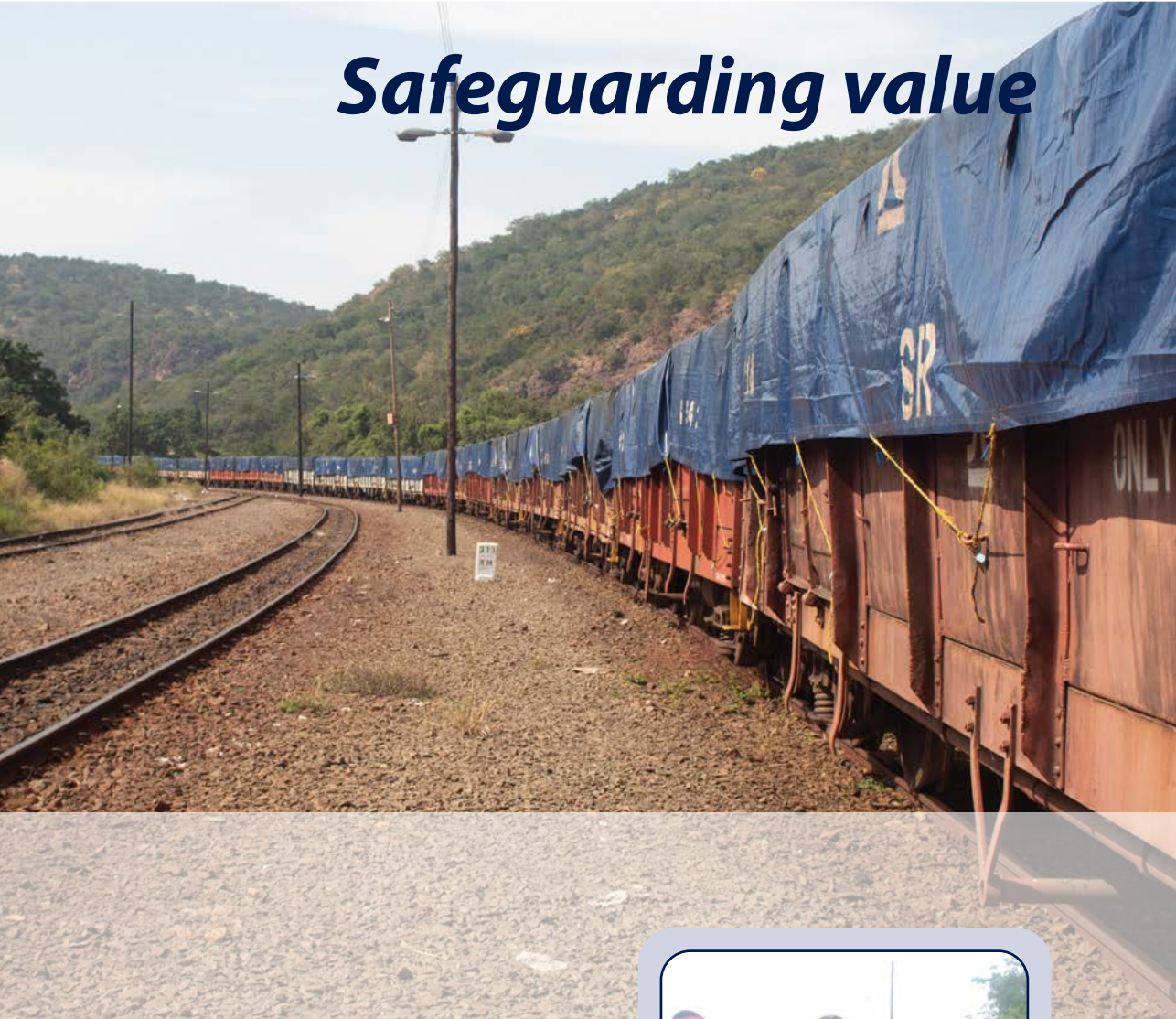


- 1. **Gross Assets** decreased by 3% from E1.108 billion to E1.075 billion compared to prior year due to decrease in bank balances and sale of Greystone shares amongst other things.
- 2. **Non-current assets** increased by 3% from E672 million to E691 million due to projects in progress like ICD, ESRL project works.
- 3. **Current assets** decreased by 12% from E435 million to E383 million as ESRL funds were drawn down and Greystone shares sold.
- 4. **Non-current liabilities** decreased by 18% as loans were being serviced.
- 5. **Current liabilities** increased by 1% from E145 million to E146 million due to overdraft increase and loan short-term portions.





Safeguarding value



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of the Board committees



Our governance structure is designed to ensure accountability, transparency, and ethical management align with industry best practices and legislative demands. We are committed to continuously strengthening this framework to uphold the integrity and trust placed in us by all stakeholders.

The governance framework at ESR ensures that every decision and action we take is accountable, transparent, and reflective of our core values. It is an evolving structure, responsive to the needs of robust oversight, ethical conduct, and strategic leadership. Through this framework, we strive to not only meet but exceed the governance standards expected by our stakeholders and required by regulation. Our Board of Directors and executive teams work diligently to embed these principles into the heart of our operations and foster a culture of integrity that supports our mission and guides our path forward.



Safeguarding value *(continued)*

OUR BOARD OF DIRECTORS



Nonhlanhla Shongwe
Chairperson

Gender: Female
Age: 55



Jack Bello
Non-Executive Director

Gender: Male
Age: 73



Winile Primrose Dlamini
Non-Executive Director

Gender: Female
Age: 49



Thulani Mkhalihi
Non-Executive Director

Gender: Male
Age: 53



Primrose Dlamini
Non-Executive Director

Gender: Female
Age: 48



Sakhile Ndzimandze
Non-Executive Director

Gender: Male
Age: 40



Philile Nxumalo
Non-Executive Director

Gender: Female
Age: 46



Nixon Dlamini
Chief Executive Director

Gender: Male
Age: 55



Stephenson Ngubane
Non-Executive Director

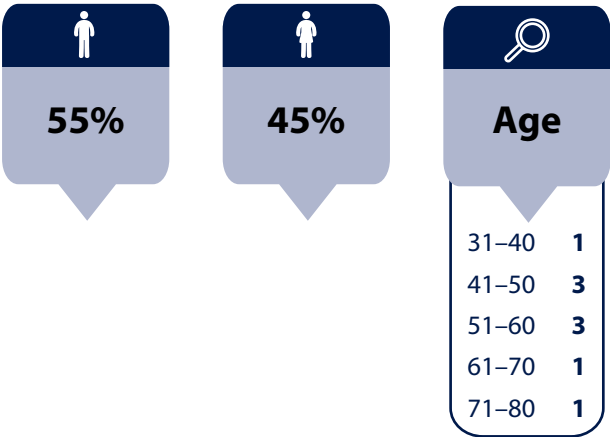
Gender: Male
Age: 65

Safeguarding value *(continued)*

OUR BOARD OF DIRECTORS *(continued)*

Name	Status	Date
Alex Mngomezulu	Resigned	2 December 2022
Khangeziwe Mabuza	Resigned	2 December 2022
Muzi Dlamini	Resigned	2 December 2022
Kholekile Mhlangeni-Kudiabor	Resigned	2 December 2022

Skills and expertise of directors	Status
Transport and logistics	3
Finance, accounting and economics	3
Legal and governance	2
Engineering and technology	3
Political/regulatory	1
Social and human science	2
Project management	2
Business administration and leadership	7
Public administration	2
Risk management and audit	1



OUR GOVERNANCE STRUCTURES

The Board holds the duty of steering the organisation towards long-term sustainability. This involves meticulous governance, adherence to legal frameworks, and the application of best practices in corporate governance to mitigate avoidable and unwarranted risks.

Overall, accountability and responsibility for the control and strategic direction of Eswatini Railways resides with the Board. To facilitate the effective discharge of this responsibility, directors have unrestricted access to all information, records, and documents. Furthermore, the mandates of the Board and its sub-committees entitle directors to take independent advice at Eswatini Railways' expense. Provision is also made for directors to attend training and development programmes to better equip them in the discharge of their duties.

Board composition and structure

Eswatini Railways has a unitary Board structure with separate and distinct roles and responsibilities for the non-executive Chairman and the Chief Executive Officer. The Board consists of nine directors who are appointed by The Eswatini Government: Minister of Public Works and Transport, for a term not exceeding three years. All Board members are eSwati nationals.

The Chief Executive Officer is the only executive director on the Board. The non-executive directors are regarded as independent directors.

Induction

On appointment, new directors undergo an induction programme to facilitate their understanding of the railway industry, ESR's business environment, strategy, and markets in which it operates, as well as to provide information on directors' roles and responsibilities in terms of legislation, regulatory requirements, and best practice. This programme includes governance training to educate new directors on good governance practices.

Remuneration

Directors' emoluments are contained in the financial statements and, with that disclosure, deemed adequate.

Changes to the Board

Returning Board Members

1. Stephenson Ngubane
2. Thulani Mkhaliphi
3. Jack Bello
4. Primrose Dlamini
5. Nixon Dlamini

New Members

1. Nonhlanhla Shongwe – Board Chair
2. Sakhile Ndzimandze
3. Philile Nxumalo
4. Winile Primrose Dlamini

Board meetings

The corporate calendar for the Board is approved annually in advance, taking into account the Board programme for the year. The Board meets a minimum of four times a year. It held two ordinary meetings during the year under review.

Safeguarding value *(continued)*

OUR BOARD COMMITTEES

In terms of the Board Charter, and to ensure effective corporate governance and appropriate oversight, the Board has established three sub-committees to assist in the discharge of its duties and responsibilities.

The terms of reference are contained in the sub-committees’ mandates, which set out the sub-committees powers, functions, responsibilities, reporting mechanisms, and authority to act. The Board, however, remains accountable. The mandate and terms of reference of each committee are reviewed annually.

The members of the sub-committees are all non-executive directors and, in respect of the Audit Committee, possess the requisite financial skills.

MANDATES AND FOCUS AREAS OF THE BOARD COMMITTEES

Audit and Risk Committee

Mandate

To assist the Board in exercising its oversight role in respect of the preparation of accurate financial reports and statements in compliance with International Financial Reporting Standards, internal and external audit, applicable regulatory requirements, internal financial controls, financial risk management, and the safeguarding of ESR assets.

Remuneration Committee

Mandate

To assist the Board in exercising its oversight role in respect of compliance and ethics, monitoring implementation of organisational policies and strategic processes, including the organisational review.

Investment Committee

Mandate

To assist the Board in exercising its oversight role of safeguarding ESR assets, investments, and projects.

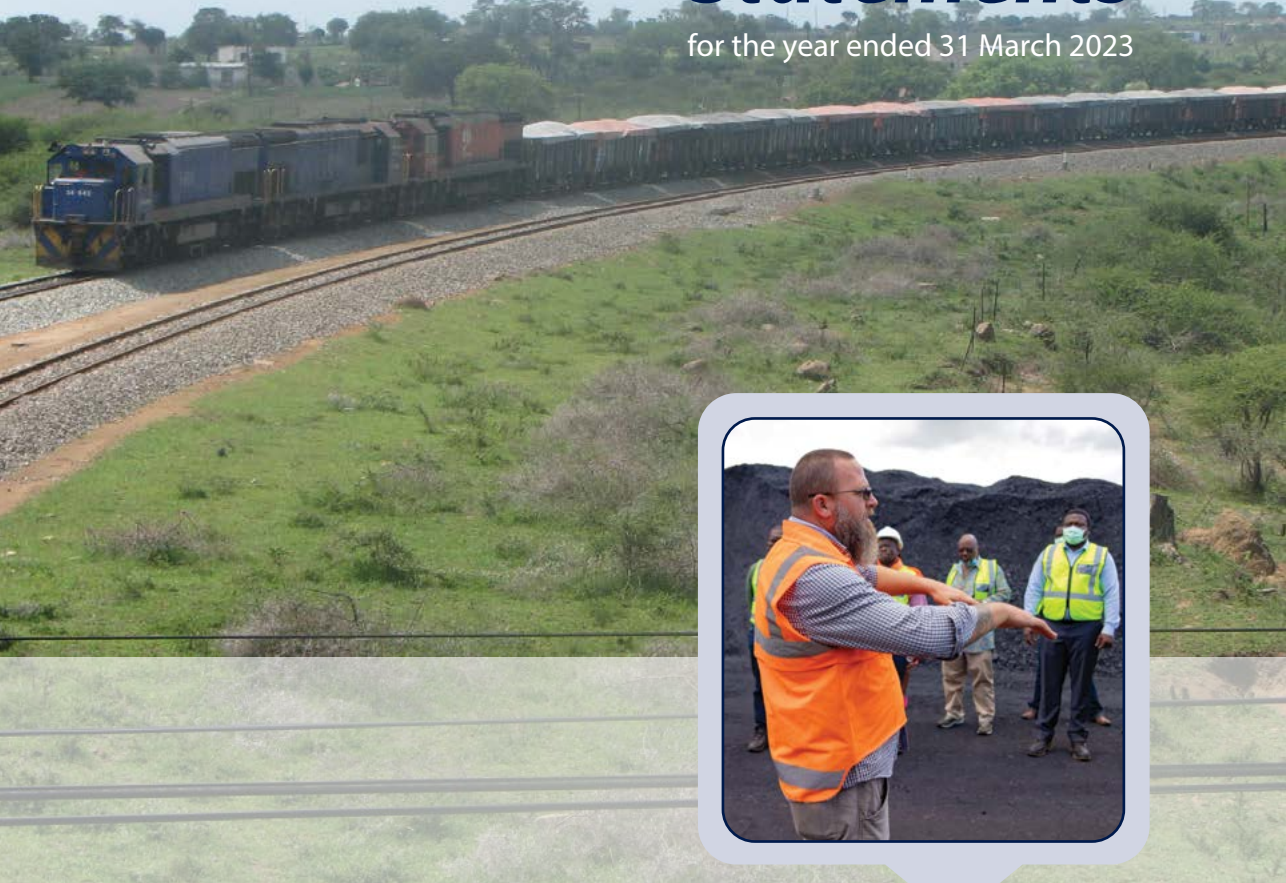
Audit and Risk Committee	Stephenson Ngubane (Chairperson) Jack Bello Nixon Dlamini
Remuneration Committee	Primrose W Dlamini (Chairperson) Primrose D Dlamini Thulani Mkhaliphi Nixon Dlamini
Investment Committee	Sakhile Ndzimandze (Chairperson) Stephenson Ngubane Nixon Dlamini





Financial Statements

for the year ended 31 March 2023



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Statement of responsibility by the Board of Directors

for the year ended 31 March 2023

The Board of Directors is responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 March 2023 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Swaziland Railway Act of 1962, as amended.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as for the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the entity's ability to continue as a going concern and have no reason to believe that Eswatini Railways will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards and in the manner required by the Swaziland Railway Act of 1962, as amended.

APPROVAL OF THE FINANCIAL STATEMENTS

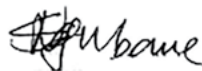
The financial statements set out on pages 92 to 134 were approved by the Board of Directors on 4 August 2023 and are signed on its behalf by:



Director



Director



Director

Independent auditors' report

TO THE MINISTER OF PUBLIC WORKS AND TRANSPORT AND THE BOARD OF DIRECTORS OF ESWATINI RAILWAYS

Opinion

We have audited the financial statements of Eswatini Railways set out on pages 92 to 134, which comprise the statement of financial position as at 31 March 2023, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eswatini Railways as at 31 March 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Swaziland Railway Act of 1962, as amended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of financial statements* section of our report. We are independent of Eswatini Railways in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Eswatini and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the statement of responsibility by the Board of Directors, the directors report and the detailed income statement. Other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in the manner required by the Swaziland Railway Act of 1962, as amended, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing Eswatini Railways' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 our 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 Eswatini Railways' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Eswatini Railways' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Eswatini Railways to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SNG Grant Thornton

Auditors

Directors' report

for the year ended 31 March 2023

The directors have pleasure in presenting their report and the audited financial statements of Eswatini Railways for the year ended 31 March 2023.

NATURE OF BUSINESS

Eswatini Railways is a parastatal which is wholly owned by the Government of the Kingdom of Eswatini under the Ministry of Public Works and Transport.

Eswatini Railways is governed by the Swaziland Railway Act of 1962, as amended.

Eswatini Railways owns railway infrastructure, rolling stock and controls local and international rail transportation throughout the Kingdom of Eswatini.

CORPORATE GOVERNANCE

The Eswatini Railways Board of Directors ("the Board") provides strategic direction to Eswatini Railways taking into account, amongst others, the need to foster sound corporate governance and a vigilant risk management process.

Eswatini Railways has a unitary Board structure with separate and distinct roles and responsibilities for the non-executive Chairman and the Chief Executive Officer. The directors are appointed by the owner. (The Eswatini Government: Minister of Public Works and Transport) for a three-year term.

Overall accountability and responsibility for the control and strategic direction of Eswatini Railways resides with the Board. To facilitate the effective discharge of such responsibility, directors have unrestricted access to all information, records, and documents. Further, the mandates of the Board and its sub-committees entitle directors the right to take independent advice at Eswatini Railways' expense. Also, to enhance the abilities of directors, provision is made for a director to attend such training and development programmes as would better equip him or her to discharge his or her responsibilities to Eswatini Railways.

Directors

The Board comprises of nine directors. The Chief Executive Officer of Eswatini Railways is the only executive director on the Board. The non-executive directors are regarded as independent directors.

Board meetings

The corporate calendar for the Board is approved annually in advance, taking into account the Board programme for the year.

The Board meets, as a minimum, four times a year. The Board had three ordinary meetings during the year under review, this was due to the tenure of the previous Board ending in the third quarter of the financial year.

Board sub-committees

In order to ensure effective corporate governance, give attention to providing support to the executives and exercise appropriate oversight, the Board has three sub-committees in place. These are the Audit and Risk, Remuneration and Investment Committees.

Some of the functions of the Board are delegated to these sub-committees. The terms of reference of the sub-committees are contained in the sub-committees' mandates. These mandates set out the sub-committees' powers, functions, responsibilities, reporting mechanisms and authority to act. The Board, however, remains accountable.

The members of the sub-committees are all non-executive directors and, in respect of the Audit Committee, they possess the requisite financial skills.

The Audit and Risk Committee met twice during the year under review.

The Remuneration Committee met twice during the year under review.

The Investment Committee met twice during the year under review.

CORPORATE GOVERNANCE *(continued)*

Internal audit

A well-established Internal Audit Department is in place and operates in accordance with the internal audit charter approved by the Board. The Internal Audit Department reports to the Audit Committee at least four times a year.

EAST/WEST LINE REHABILITATION AND VALUATION OF INFRASTRUCTURAL ASSETS

During the 2003/2004 financial year, Eswatini Railways completed the rehabilitation of the East/West line at a total cost of E123 975 938. While performing the rehabilitation, certain assets were replaced, while others were modified. On the completion of the exercise, it became difficult to determine the cost of assets removed and the cost of assets modified, and therefore the cost of the East/West line as a whole could not be determined.

As a consequence of the above, Eswatini Railways resolved to carry out an engineering valuation of the entire infrastructure. The applicable valuation method was the depreciated replacement cost as the assets of the Railway are highly specialised and their market value is not readily available. Eswatini Railways completed the valuation during the year ending 31 March 2013.

The valuation considered depreciated replacement cost and value in use for the year ending 31 March 2013. This resulted in Eswatini Railways' property, plant and equipment being valued at E1.78 billion, with a net notional revaluation surplus of E1.53 billion after considering the carrying amount of the assets which was E256 million in the valuation year (2013). The results of the valuation are not accounted for in the financial statements in accordance with the accounting policy which requires property, plant and equipment to be stated at cost less accumulated depreciation and accumulated impairment losses.

CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents includes funds received from the Eswatini Government as equity for the development of Eswatini Rail Link (ESRL) project. The funds are ringfenced and are not available for operational use by ESR but solely for the resettlement of households affected by the project. The funds are invested in near cash facilities valued at E226 741 480 at the close of the financial year.

GOING CONCERN

The Board of Directors has evaluated all the events and conditions that may cast significant doubt on the ability of Eswatini Railways to continue as a going concern, and also its operations for the foreseeable future to reach a conclusion. The Board believes that Eswatini Railways has adequate financial resources to continue in operation for the foreseeable future without the existence of a material uncertainty and accordingly the financial statements have been prepared on a going concern basis.

Refer to note 34 for additional details.

SUBSEQUENT EVENTS

At the date of approval of the financial statements there were no material events that occurred subsequent to the reporting date that required adjustments to amounts recognised in the financial statements. However, refer to note 33 for additional details on events that require disclosure in the financial statements.

Directors' report *(continued)*

for the year ended 31 March 2023

DIRECTORS

The directors of Eswatini Railways during the year and to the date of approval of the financial statements were as follows:

Ms Nonhlanhla Shongwe	Chairperson (Appointed 3 April 2023)
Mr Alex Mngomezulu	Chairperson (Resigned 2 December 2022)
Mr Nixon Dlamini	Chief Executive Officer
Mr Stephenson Ngubane	Member
Mr Muzi Dlamini	Member (Resigned 2 December 2022)
Mrs Kholekile Mlangeni-Kudiabor	Member (Resigned 2 December 2022)
Mr Jack Bello	Member
Ms Khangeziwe Mabuza	Member (Resigned 2 December 2022)
Ms Philile Nxumalo	Member
Ms Primrose D Dlamini	Member
Mr Sakhile Ndzimandze	Member (Appointed 3 April 2023)
Ms Primrose W Dlamini	Member (Appointed 3 April 2023)
Mr Thulani Mkhaliphi	Member

SECRETARY – SCRIBE

Ms Bon'sile Lukhele

DECLARATION OF DIVIDENDS

Eswatini Railways declared a dividend of ENil in the current year (2022: ENil) to the Government of the Kingdom of Eswatini.

REGISTERED OFFICE

Postal address

Eswatini Railways
PO Box 475
Mbabane
H100

Physical address

Eswatini Railways Building
Dzeliwe Street
Mbabane

AUDITORS

SNG Grant Thornton Chartered Accountants (Eswatini) are the independent auditors of Eswatini Railways.

Postal Address

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Mbabane
H100

Physical address

Umkhiwa House
Lot 195, Kal Grant Street
Mbabane

BANKERS AND INVESTEEs

Postal address

Nedbank Eswatini Limited
PO Box 68
Mbabane
H100

Physical address

Nedbank Centre
Swazi Plaza
Mbabane

STANLIB Eswatini
PO Box A294
Swazi Plaza
H101

Ingcamu Building
Mhlambanyatsi Road
Mbabane

Standard Bank Eswatini
PO Box A294
Swazi Plaza
H101

Corporate Place
Swazi Plaza
Mbabane

BANKERS AND INVESTEES *(continued)*

Postal address

Eswatini Building Society
PO Box 300
Mbabane
H100

African Alliance Eswatini
PO Box 5727
Mbabane
H100

Inhlonhla
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Swazi Plaza
H101

Old Mutual Eswatini
PO Box 95
Mbabane
H100

Alphsz Limited formerly
Sanlam Investment Management Eswatini
PO Box 8392
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Physical address

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Mbabane

First Floor Matsapha Link
Portion 3 of 582, Along Police College Road
Lihawu Street, Matsapha

Development House
Swazi Plaza
Mbabane

Public Service Pensions Fund Building
Mhlambanyatsi Road
Mbabane

3rd Floor, Fincorp Building
Corner Gwamile and Dabede Streets
Mbabane

LAWYERS

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H100

Physical address

Robinson Bertram
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Mbabane

Postal address

Dynastic Inc. Attorneys
PO Box 3166
Mbabane
H100

Physical address

1st Floor, Suite 110A
The New Mall
Dr Sishayi Road
Mbabane

INVESTMENT ADVISORS

Insika Financial Services and Vunani Capital Consortium
Office 103A
1st Floor Development House
Swazi Plaza
Mbabane
H100

Statement of comprehensive income

for the year ended 31 March 2023

		2023	2022
	Notes	E	E
Revenue	9	327 034 552	247 275 373
Other income	10	20 393 604	18 876 940
Operating expenses		(194 370 231)	(149 737 345)
Administration expenses		(128 709 609)	(123 681 513)
Operating profit/(loss)	6	24 348 316	(7 266 545)
Finance income	8	20 768 439	17 023 387
Finance costs	8	(21 599 951)	(25 933 264)
Net finance costs	8	(831 512)	(8 909 877)
Profit/(loss) before income tax		23 516 804	(16 176 422)
Income tax credit	24	(12 346 010)	3 386 374
Profit/(loss) for the year		11 170 794	(12 790 048)
Other comprehensive income			
<i>Items that may not be reclassified to profit or loss</i>			
Equity investments at fair value through other comprehensive income – net changes in fair value	20	(1 250 050)	750 000
Total comprehensive income/(loss)		9 920 744	(12 040 048)

Statement of financial position

at 31 March 2023

	Notes	2023 E	2022 E
ASSETS			
Non-current assets			
Property, plant and equipment	12	671 960 991	641 084 642
Investment property	11	4 570 778	4 699 057
Equity investments at FVOCI	13	2 356 961	2 356 961
Deferred tax assets	25	12 400 022	24 746 032
Right-of-use asset	32	–	–
		691 288 752	672 886 692
Current assets			
Inventory	14	24 696 980	18 788 154
Trade and other receivables	15	60 141 058	61 194 776
Investments – short term	23	20 847 671	20 530 000
Equity investments at FVOCI	13	–	15 750 000
Cash and cash equivalents	23	271 308 166	312 855 663
Taxation prepaid	28	6 840 804	6 470 170
		383 834 679	435 588 763
Total assets		1 075 123 431	1 108 475 455
EQUITY			
Eswatini Government equity	16	446 780 425	446 780 425
General reserve	18	88 024 503	85 231 805
Capital reserve	19	57 698 550	60 446 100
Fair value reserve	20	1 321 517	12 071 567
Revaluation surplus		319 636	319 636
Retained earnings		124 336 534	103 710 888
		718 481 165	708 560 421
LIABILITIES			
Non-current liabilities			
Finance lease – non-current	17	46 231 065	87 037 736
Long-term loans – non-current	17	161 495 064	155 557 717
Embedded derivatives	31	2 233 563	12 258 206
		209 959 692	254 853 659
Current liabilities			
Trade and other payables	21	64 885 816	74 028 380
Finance lease – current	17	46 120 574	41 104 087
Long-term loans – current	17	14 909 439	13 555 909
Payroll accruals	22	6 350 019	6 719 427
Bank overdraft	23	14 416 726	9 653 572
		146 682 574	145 061 375
Total liabilities		356 642 266	399 915 034
Total equity and liabilities		1 075 123 431	1 108 475 455

Statement of changes in equity

for the year ended 31 March 2023

	Eswatini Government equity	General reserve	Capital reserve	Fair value reserve	Revaluation reserve	Retained earnings	Total
	E	E	E	E	E	E	E
Year ended 31 March 2023							
Balance at 31 March 2022	446 780 425	85 231 805	60 446 100	12 071 567	319 636	103 710 888	708 560 421
<i>Comprehensive income for the year</i>							
Profit for the year	-	-	-	-	-	11 170 794	11 170 794
Other comprehensive loss	-	-	-	(1 250 050)	-	-	(1 250 050)
Transfers to general reserves	-	2 792 698	-	-	-	(2 792 698)	-
Transfer from capital reserve	-	-	(2 747 550)	-	-	2 747 550	-
Transfers to retained earnings	-	-	-	(9 500 000)	-	9 500 000	-
	-	2 792 698	(2 747 550)	(10 750 000)	-	20 625 646	9 920 744
<i>Transactions with owners</i>							
Contribution	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Balance at 31 March 2023	446 780 425	88 024 503	57 698 550	1 321 517	319 636	124 336 534	718 481 165

	Eswatini Government equity E	General reserve E	Capital reserve E	Fair value reserve E	Revaluation reserve E	Retained earnings E	Total E
Year ended 31 March 2022							
Balance at 31 March 2021	446 780 425	85 231 805	63 193 650	11 321 567	319 636	113 753 386	720 600 469
<i>Comprehensive loss for the year</i>							
Loss for the year	-	-	-	-	-	(12 790 048)	(12 790 048)
Other comprehensive income	-	-	-	750 000	-	-	750 000
Transfer from capital reserve	-	-	(2 747 550)	-	-	2 747 550	-
	-	-	(2 747 550)	750 000	-	(10 042 498)	(12 040 048)
<i>Transactions with owners</i>							
Contribution	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Balance at 31 March 2022	446 780 425	85 231 805	60 446 100	12 071 567	319 636	103 710 888	708 560 421

Statement of cash flows

for the year ended 31 March 2023

		2023	2022
	Notes	E	E
Cash flows from operating activities			
Cash generated by operations	26	29 334 838	23 457 404
Finance income	8	10 743 796	14 466 159
Finance costs	8	(21 599 951)	(25 834 374)
Tax paid	28	(370 634)	–
<i>Net cash generated from operating activities</i>		18 108 049	12 089 189
Cash flows from investing activities			
Proceeds from sale of financial assets		14 499 950	–
Purchase of property, plant and equipment	12	(50 953 681)	(20 502 807)
Proceeds from disposal of assets		852 009	1 081 217
<i>Net cash utilised investing activities</i>		(35 601 722)	(19 421 590)
Cash flows from financing activities			
Dividends paid		–	(2 000 000)
Finance lease repaid		(35 790 184)	(30 686 530)
Loans received		10 000 000	–
Loans repaid		(2 709 123)	(8 303 377)
<i>Net cash utilised in financing activities</i>		(28 499 307)	(40 989 907)
Net decrease in cash and bank balances			
Cash and bank balances at the beginning of the year		323 732 091	372 054 399
Cash and bank balances at the end of the year	23	277 739 111	323 732 091

Summary of significant accounting policies

for the year ended 31 March 2023

1. GENERAL INFORMATION

Eswatini Railways is a parastatal which is wholly owned by the Government of the Kingdom of Eswatini.

Eswatini Railways was established and is governed by the Swaziland Railway Act of 1962, as amended.

Eswatini Railways owns railway infrastructure and controls local and international rail transportation in the Kingdom of Eswatini.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance and basis for preparation

The financial statements of Eswatini Railways have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Swaziland Railway Act of 1962, as amended.

The financial statements have been prepared on the historical cost basis except for financial assets valued at fair value.

The financial statements have been approved by the Board on 4 August 2023.

2.1.1 Use of judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 4 – Fair value measurements
- Notes 11 and 12 – Depreciation, useful lives and residual values of property, plant and equipment and investment property
- Note 15 – Trade and other receivables
- Note 30 – Contingencies
- Note 31 – Embedded derivatives

2.1.2 Going concern

Eswatini Railways meets its day-to-day working capital requirements through the use of its cash reserves and bank facilities. Forecasts and projections, taking account of reasonably possible changes in trading performance, show that the entity should be able to operate within the level of its current resources and facilities. The directors have a reasonable expectation that the entity has adequate resources to continue in operational existence for the foreseeable future. Eswatini Railways therefore continues to adopt the going concern basis in preparing its financial statements.

2.1.3 Changes in accounting policies

A number of new standards were effective from 1 April 2022 but they do not have a material effect on Eswatini Railways' financial statements.

Summary of significant accounting policies *(continued)* for the year ended 31 March 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Statement of compliance and basis for preparation *(continued)*

2.1.4 New standards and interpretations not yet adopted

At the date of authorisation of the financial statements of Eswatini Railways for the year ended 31 March 2023, the following Standards and Interpretations were in issue but not yet effective:

Effective for the financial year commencing 1 April 2023

- IFRS 17 Insurance Contracts
- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practise statement 2)
- Definition of Accounting Estimate (Amendments to IAS 8)
- Non-current liabilities with covenants (Amendments to IAS 1)
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16)
- Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)
- Initial application of IFRS 17 and IFRS 9 – Comparative Information
- Sale or contribution of assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The above standards are not expected to have a significant impact on Eswatini Railways.

2.2 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. Eswatini Railways recognises revenue when it transfers control over a good or service to a customer.

Rental income – Income represents operating lease income and is accounted for under IFRS 16.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Transportation services	Transport services are to be recognised “over time” since transportation is the service during which the customer receives and consumes simultaneously, the benefit as Eswatini Railways performs the service. The customer benefit is based on the distance travelled. Invoices are usually payable by the customer within 30 days.	Revenue is recognised over time as the services are provided. The stage of completion for determining the amount of revenue to recognise is assessed based on estimated time to completion of transportation services.
Other revenue	Other revenue is recognised at the point in time when sale has been commenced and control over the goods has been transferred.	Revenue is recognised at a point in time when the goods have been accepted by customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Eswatini Railways and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write off the cost of each asset (less its residual value) over its estimated useful life. Depreciation is charged in full in the year of disposal.

The estimated useful lives are as follows:

Buildings	60 Years
Rolling stock	20–40 Years
Infrastructural assets	20–100 Years
Plant, machinery and furniture	5–20 Years
Motor vehicles	3–5 Years

Depreciation is not charged on land and certain infrastructural assets consisting mainly of earthworks, tunnels, roads and bridges and culverts. The cost of maintenance of these assets is written off as it is incurred. Depreciation is charged on major projects from the time they are commissioned (when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.4 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, rather than for:

- sale in the ordinary course of business;
- use in the production or supply of goods or services; or
- for administrative purposes.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to Eswatini Railways, and the cost or fair value of the investment property can be measured reliably.

Investment property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on the straight line basis. The estimated useful life of the buildings is 60 years. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part of a property is recognised in the carrying amount of the investment property, the carrying amount of the replaced part of a property is derecognised.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Summary of significant accounting policies *(continued)* for the year ended 31 March 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Investment property *(continued)*

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from the investment property.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in profit or loss when the compensation becomes receivable.

2.5 Impairment of non-financial assets

At each reporting date, Eswatini Railways reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units ("CGU's").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Eswatini Emalangení (E), rounded to the nearest one, which is also Eswatini Railways' functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

All foreign exchange gains and losses are presented in profit or loss. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amounts are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss. Translation differences on non-monetary financial assets, such as equities, are included in other comprehensive income.

2.7 Financial instruments

2.7.1 Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when Eswatini Railways becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Financial instruments *(continued)*

2.7.2 Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt instrument; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless Eswatini Railways changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

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

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

Financial assets – business model assessment

Eswatini Railways makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policy and objectives for the portfolio and the operation of those policies in practice.
- How the performance of the portfolio is evaluated and reported to Eswatini Railways' management.
- The risks that affect the performance of the business model and how these are managed.
- How managers of the business are compensated, and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose.

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

Financial assets – assessment whether contractual cash flows are solely payments of principal and interest

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

Summary of significant accounting policies *(continued)* for the year ended 31 March 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Financial instruments *(continued)*

2.7.2 Classification and subsequent measurement *(continued)*

Financial assets – assessment whether contractual cash flows are solely payments of principal and interest *(continued)*

In assessing whether the contractual cash flows are solely payments of principal and interest, Eswatini Railways considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, Eswatini Railways considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit Eswatini Railways claim to cash flows from specified assets.

Financial assets – subsequent measurement and gains and losses

Financial assets at FVTPL:

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost:

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity instruments at FVOCI:

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. See Accounting policy 2.19 for derivatives.

2.7.3 Derecognition

Financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial instruments (continued)

2.7.3 Derecognition (continued)

Financial liabilities

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

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

2.7.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, Eswatini Railways has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.7.5 Impairment

The Company recognises loss allowances for ECLs on:

Financial assets measured at amortised cost.

Eswatini Railways measures loss allowances at an amount equal to lifetime ECLs, except for the following which are measured at 12-month ECLs.

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument has not increased significantly since initial recognition).

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, Eswatini Railways considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessments including forward looking information.

Eswatini Railways assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Railways considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security if any is held; or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date or for a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which Eswatini Railways is exposed to credit risk.

Summary of significant accounting policies *(continued)* for the year ended 31 March 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Financial instruments *(continued)*

2.7.5 Impairment *(continued)*

Measurement of ECLs

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Railways in accordance with the contract and the cash flows that the Railways expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Railways on terms that the Railways would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-offs

The Railways writes off a receivable when there is information indicating that the counterparty is in severe difficulty and there is no realistic prospect of recovery; e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Railways' procedures for recovery of amounts due.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call and other short-term highly liquid investments with original maturities of three months or less.

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and fixed deposits which form an integral part of Eswatini Railways' cash management.

2.9 Provisions

Provisions are recognised when Eswatini Railways has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to one item included in the class may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Finance income and finance costs

Eswatini Railways' finance income and finance costs include:

- interest income;
- interest expense;
- the net gain or loss on the disposal of investments in debt securities measured at FVOCI;
- the net gain or loss on financial assets at FVTPL; and
- the foreign currency gain or loss on financial assets and financial liabilities; impairment losses (and reversals) on investments in debt securities carried at amortised cost or FVOCI.

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which Eswatini Railways' right to receive payment is established.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

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

2.11 Leases

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

As a lessee

At commencement or on modification of a contract that contains a lease component, Eswatini Railways allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property Eswatini Railways has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Eswatini Railways recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Eswatini Railways by the end of the lease term or the cost of the right-of-use asset reflects that Eswatini Railways will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Summary of significant accounting policies *(continued)* for the year ended 31 March 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Leases *(continued)*

As a lessee *(continued)*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Eswatini Railways' incremental borrowing rate. Generally, Eswatini Railways uses its incremental borrowing rate as the discount rate.

Eswatini Railways determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of asset leased. Lease payments included in the measurement of the lease liability comprise the following:

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Eswatini Railways' estimate of the amount expected to be payable under a residual value guarantee, if Eswatini Railways changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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 recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

Eswatini Railways has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. Eswatini Railways recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, Eswatini Railways allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When Eswatini Railways acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, Eswatini Railways makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Eswatini Railways considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When Eswatini Railways is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, without reference to the underlying asset. If a head lease is a short-term lease to which Eswatini Railways applies the exemption described above, then it classifies the sub-lease as an operating lease.

Eswatini Railways recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of other income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventory is based on the first-in-first-out principle, and includes expenditure in acquiring the inventories and other costs in bringing them to their existing location and condition.

Net realisable value is the estimated selling price less the cost to sell where inventories are not for own use.

2.13 Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of the Railways as well as other income and expenses related to operating activities. Operating profit excludes net finance costs and income taxes.

2.14 General reserve

It is Eswatini Railways' policy to transfer up to 25% of the profit for the year after taxation to the general reserve. The transfer is done through the statement of changes in equity.

2.15 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

2.16 Government grants

Capital based Government grants are included directly in the statement of changes in equity, as Eswatini Railways is wholly owned by the Government of the Kingdom of Eswatini. The grants received are used for expenditure on capital projects. The Government grant is decreased annually by the amount of depreciation charged to the assets for which the capital grants were used.

2.17 Employee benefits

(a) Pension obligations

The Eswatini Railways Provident Fund is a defined contribution plan. For defined contribution plans, Eswatini Railways pays contributions to publicly or privately administered pension plans on a mandatory, contractual, or voluntary basis. Once the contributions have been paid, Eswatini Railways has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due, and as such are included in staff costs in profit or loss.

Eswatini Railways also has a defined benefit plan, Eswatini Railways Pension Fund. This defined benefit plan provides eligible employees guaranteed income for life when they retire. Eswatini Railways makes a specific retirement benefit provision for each participant that is based on the employees' years of service. Eswatini Railways Pension Fund is a closed fund and will be terminated once there are no longer pensioners.

(b) Terminal benefits

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

(c) Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The accrual for employee entitlements to salaries and annual leave represents the amount that Eswatini Railways has a present obligation to pay, as a result of employees' services provided up to the reporting date. The accrual has been calculated at undiscounted amounts based on current salary rates.

Summary of significant accounting policies *(continued)* for the year ended 31 March 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Taxation

The income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred income taxes

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that Eswatini Railways is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of Eswatini Railways.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2.19 Derivative financial instruments

Embedded derivatives are separated from host contracts and are accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value. Any directly attributable transactions costs are recognised in profit or loss as incurred. Subsequent to initial recognition derivatives are measured at fair value, and changes therein are recognised in profit or loss.

Notes to the financial statements

for the year ended 31 March 2023

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Eswatini Railways' activities expose it to a variety of financial risks, the most important being market risk, credit risk, and liquidity risk.

Eswatini Railways' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of Eswatini Railways.

(a) Market risk

Market risk includes currency risk, interest rate risk and equity price risk. The Board continuously monitors the fluctuations and appropriate action is taken.

(i) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The equity investments are listed on the Eswatini Stock Exchange (ESE). A 1.5% percent increase in share prices at the reporting date, with all other variables held constant, would have increased profit or loss by E21 204 (2022: E257 454); an equal change in the opposite direction would have decreased profit or loss by E21 204 (2022: E257 454). The analysis is performed on the same basis for 2022, which is on the fair value of the Royal Eswatini Sugar Corporation Limited and Greystone Partners Limited (Refer note 13.1).

The Eswatini Building Society Permanent shares are not exposed to price risk as they are not traded.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

Eswatini Railways' income and operating cash flows are affected, but not to a significant extent, by changes in market interest rates. Interest rate risk arises from borrowings and investments. Borrowings and investments issued at variable rates expose Eswatini Railways to cash flow interest rate risk. Borrowings and investments issued at fixed rates expose Eswatini Railways to fair value interest rate risk.

Eswatini Railways' borrowings and investments are mainly variable interest rate borrowings and as such they expose the Railways to cash flow interest rate risk. The sensitivity of these borrowings can be shown as follows:

	2023 E	2022 E
Current finance lease liabilities	(46 120 574)	(41 104 087)
Non-current finance lease liabilities	(46 231 065)	(87 037 736)
Current portion of long-term loans	(14 909 439)	(13 555 909)
Non-current portion of long-term loans	(161 495 064)	(155 557 717)
Short-term deposits (Note 23)	256 891 440	303 202 091
Fixed deposits (Note 23)	20 847 671	20 530 000
Interest-bearing financial assets (Note 13.1)	943 361	943 361
Total variable rate instruments	9 926 330	27 420 003
Interest rate fluctuation	1%	1%
Additional interest receivable/(payable)	99 263	274 200
Tax effect (at 27.5%)	(27 297)	(75 405)
Net of tax (equity) effect	71 966	198 795

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Foreign exchange risk

Foreign currency exchange risk is the risk that the financial instruments that are denominated in foreign currency will fluctuate due to changes in foreign exchange rates.

Eswatini Railways' exposure to currency risk at the reporting date consists of trade receivables, trade payables, derivative financial instruments and finance lease liabilities. Trade receivables and trade payables with South African counterparts have no exchange rate differences because the Eswatini Emalangeni (SZL), and the South African Rand (ZAR) are linked at par.

The finance lease liabilities with Thelo Rolling Stock were denominated in US dollars until 31 May 2016. A new agreement was re-negotiated between Thelo Rolling Stock and Eswatini Railways. The new agreement is quoted in local currency (Emalangeni). Exchange differences that occurred up to 31 May 2016 were recognised in profit or loss.

The following exchange rates applied during the year for Eswatini Railways:

	Reporting date Bank selling rate	
	2023	2022
	E	E
USD 1	17.83	14.51

	Average rate	
	2023	2022
	E	E
USD 1	18.14	14.86

Sensitivity analysis

At 31 March 2023, there were no foreign currency denominated financial instruments. As such, no sensitivity analysis has been presented.

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Railways to incur a financial loss.

Credit risk arises from cash and cash equivalents, deposits with financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Eswatini Railways' cash equivalents and short-term deposits are placed with reputable financial institutions. Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The carrying amounts of financial assets included in the statement of financial position represent Eswatini Railways' maximum exposure to credit risk in relation to these assets.

Eswatini Railways has significant exposure spread over six individual customers.

Management does not expect any losses from non-performance by any of its counterparties.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that Eswatini Railways will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Eswatini Railways remains confident that the available cash resources and borrowing facilities will be sufficient to meet its funding requirements.

Management monitors rolling forecasts of liquidity reserves (which comprise undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows.

The table below analyses Eswatini Railways' financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year E	Between 2 and 5 years E	Over 5 years E
NON-DERIVATIVE FINANCIAL ASSETS			
At 31 March 2023			
Financial assets – FVOCI (Note 13)	–	2 356 961	–
Cash and bank balances (Note 23)	277 739 111	–	–
Trade and other receivables (Note 15)	65 374 870	–	–
	343 113 981	2 356 961	–
At 31 March 2022			
Financial assets – FVOCI (Note 13)	15 750 000	2 356 961	–
Cash and bank balances (Note 23)	323 732 091	–	–
Trade and other receivables (Note 15)	63 908 481	–	–
	403 390 572	2 356 961	–
DERIVATIVE FINANCIAL ASSETS			
There are no derivative financial assets (2022: ENil)			

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year E	Between 2 and 5 years E	Over 5 years E
NON-DERIVATIVE FINANCIAL LIABILITIES			
At 31 March 2023			
Trade and other payables	64 885 816	–	–
Long-term loans	14 909 439	161 495 064	–
	79 795 255	161 495 064	–
At 31 March 2022			
Trade and other payables	74 028 380	–	–
Long-term loans	13 555 909	155 557 717	–
	87 584 289	155 557 717	–
DERIVATIVE FINANCIAL LIABILITIES			
At 31 March 2023			
Embedded derivative	–	2 233 563	–
	–	2 233 563	–
At 31 March 2022			
Embedded derivative	–	12 258 206	–
	–	12 258 206	–

Refer to note 17.1 for disclosures on lease liabilities.

3.2 Capital risk management

Eswatini Railways' objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Eswatini Railways may adjust the amount of contributions from shareholders, return capital to shareholders or sell assets to reduce debt.

Consistent with others in industry, Eswatini Railways monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt.

The gearing ratios at 31 March 2023 and 31 March 2022 were as follows:

	2023 E	2022 E
Total borrowings (Note 17)	268 756 142	297 255 449
Cash and bank balances (Note 23)	(277 739 111)	(323 732 091)
Net debt	(8 982 969)	(26 476 642)
Total equity	718 481 165	708 560 421
Total capital	709 498 196	682 083 779

4. FAIR VALUE MEASUREMENTS

The table below analyses amounts carried at fair value by the level of fair value hierarchy. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

- Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.
- Level 2: Fair value is based on input other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Fair value is based on input for the asset or liability that is not based on observable market data (i.e. unobservable inputs).

The following table presents the Railways assets and liabilities that are measured at fair value at 31 March.

	Level 1 E	Level 2 E	Level 3 E
AT 31 MARCH 2023			
Assets			
Financial assets	–	2 356 961	–
Liabilities			
Embedded derivative	–	2 233 563	–
AT 31 MARCH 2022			
Assets			
Financial assets	–	18 106 961	–
Liabilities			
Embedded derivative	–	12 258 206	–

Level 1 financial instruments are based on quoted prices for The Royal Eswatini Sugar Corporation Limited shares and Greystone Partners Limited shares which are listed on the Eswatini Stock Exchange. However, as the market for these shares is not active the instruments are classified as level 2. Eswatini Building Society Permanent shares are not quoted and are redeemable at cost.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Eswatini Railways makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The valuation of derivatives are accounting estimates that could have a risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. At year end, accounting estimates and assumptions were included in the assessment of the following:

	2023 E	2022 E
Depreciation (Notes 11, 12 and 32)	18 716 789	18 875 464
Deferred tax asset (Note 25)	12 400 022	24 746 032
Embedded derivatives (Note 31)	2 233 563	12 258 206

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

	2023 E	2022 E
6. OPERATING PROFIT/(LOSS)		
Operating profit/(loss) is arrived at after taking into account the following:		
Auditors' remuneration		
– Current year audit fees	–	653 736
– Prior year audit fees	599 318	737 583
Directors' emoluments		
– Sitting allowances	326 083	377 745
– Board committee meetings – other expenses	90 036	242 474
– Retainer fees	100 574	180 109
Loss/profit on disposal of property, plant and equipment	636 813	(1 081 217)
Repairs and maintenance	36 814 888	41 193 139
PEU management fees	2 091 309	2 081 035
7. EMPLOYEE BENEFIT EXPENSES		
13 th cheque	5 754 129	5 486 785
Gratuity	1 566 474	1 385 343
Medical aid	5 915 796	5 770 194
Pension and provident fund	9 047 177	9 925 064
Terminal benefits	8 000 446	10 710 711
Salaries, wages and allowances	103 708 390	98 670 505
	133 992 412	131 948 602
The average number of employees during the year was 361 (2022: 358)		
8. NET FINANCE COSTS		
Finance income:		
Fair value changes in embedded derivatives	10 024 643	2 557 228
Interest income on short-term deposits	10 743 796	14 466 159
Total finance income	20 768 439	17 023 387
Finance costs:		
Interest expense on finance lease liabilities and bank loans	(21 599 951)	(25 933 264)
Total finance costs	(21 599 951)	(25 933 264)
Net finance (costs)	(831 512)	(8 909 877)

	2023 E	2022 E
9. REVENUE		
Revenue comprises the following:		
Transit revenue	277 264 796	203 515 318
Exports	27 744 527	20 679 846
Imports	22 025 229	23 080 209
	327 034 552	247 275 373
10. OTHER INCOME		
Profit on disposal of assets	–	1 081 217
Passenger revenue	680 404	267 121
Demurrage and storage	5 320 366	2 140 453
Sale of scrap	1 816 671	3 585 441
Rental income	12 576 163	11 802 708
	20 393 604	18 876 940
11. INVESTMENT PROPERTY		
Opening balance	4 699 057	4 827 398
Depreciation	(128 279)	(128 341)
Closing balance	4 570 778	4 699 057
Cost	7 780 911	7 780 911
Accumulated depreciation	(3 210 133)	(3 081 854)
Carrying value	4 570 778	4 699 057

Investment property comprises Eswatini Railways owned properties at Sidvokodvo, Matsapha and Kadake that are leased to third parties. Subsequent renewals are negotiated with the lessee annually. No contingent rentals are charged. These properties are valued on the historical cost basis. A register of properties owned by Eswatini Railways is available for inspection at the registered office.

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings E	Rolling stock E	Machinery, equipment and furniture E
Cost			
Balance at 1 April 2022	29 025 776	314 125 478	27 565 831
Additions	–	–	979 604
Disposals	–	(2 285 612)	(8 990)
Balance at 31 March 2023	29 025 776	311 839 866	28 536 445
Accumulated depreciation and impairment			
Balance at 1 April 2022	(17 747 279)	(77 819 159)	(23 355 850)
Depreciation for the year	(456 985)	(9 850 611)	(1 378 942)
Disposals	–	796 790	8 990
Balance at 31 March 2023	(18 204 264)	(86 872 980)	(24 725 802)
Carrying value	10 821 512	224 966 886	3 810 643

	Buildings E	Rolling stock E	Machinery, equipment and furniture E
Cost			
Balance at 1 April 2021	29 025 776	314 125 478	25 002 857
Additions	–	–	2 581 478
Disposals	–	–	(18 504)
Balance at 31 March 2022	29 025 776	314 125 478	27 565 831
Accumulated depreciation and impairment			
Balance at 1 April 2021	(17 284 545)	(67 953 887)	(21 960 052)
Depreciation for the year	(462 734)	(9 865 272)	(1 414 302)
Disposals	–	–	18 504
Balance at 31 March 2022	(17 747 279)	(77 819 159)	(23 355 850)
Carrying value	11 278 497	236 306 319	4 209 981

Infrastructural assets	Motor vehicles	Land and surveys	Work in progress	Total
E	E	E	E	E
295 569 309	58 508 484	12 952 344	176 506 913	914 254 135
–	1 386 238	–	48 587 839	50 953 681
–	(1 490 661)	–	–	(3 785 263)
295 569 309	58 404 061	12 952 344	225 094 752	961 422 553
(118 061 962)	(36 168 823)	(16 420)	–	(273 169 493)
(3 395 846)	(3 506 126)	–	–	(18 588 510)
–	1 490 661	–	–	2 296 441
(121 457 808)	(38 184 288)	(16 420)	–	(289 461 562)
174 111 501	20 219 773	12 935 924	225 094 752	671 960 991

Infrastructural assets	Motor vehicles	Land and surveys	Work in progress	Total
E	E	E	E	E
295 569 309	54 603 607	12 952 344	164 527 585	895 806 956
–	5 942 001	–	11 979 328	20 502 807
–	(2 037 124)	–	–	(2 055 628)
295 569 309	58 508 484	12 952 344	176 506 913	914 254 135
(114 521 533)	(34 995 681)	(16 420)	–	(256 732 118)
(3 540 429)	(3 210 266)	–	–	(18 493 003)
–	2 037 124	–	–	2 055 628
(118 061 962)	(36 168 823)	(16 420)	–	(273 169 493)
177 507 347	22 339 661	12 935 924	176 506 913	641 084 642

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Buildings and infrastructural assets are included at revalued amounts established on 21 September 1977. Land in Ezulwini Valley costing E11 250 000 was acquired on 1 June 2018. The land was financed through a loan from Nedbank at an interest rate of prime.

Buildings, land and surveys comprise 19 properties situated in the Manzini, Hhohho and Lubombo Districts of the Kingdom of Eswatini. A register of properties owned by Eswatini Railways is available for inspection at the registered office.

Infrastructural assets comprise the Permanent Way, Tunnels, Bridges and Culverts, Water Supplies, Telecommunications Systems, Signalling, Crossings, Signs and Fencing along the line.

Assets pledged as collateral for borrowings have been disclosed in note 17.

Refer to note 17.1 for details of property, plant and equipment held under finance leases.

Property, plant and equipment includes fully depreciated items which are still in use with an initial cost of E64 363 327 (2022: E69 461 602).

	2023 E	2022 E
13. EQUITY INVESTMENTS AT FVOCI		
Current	–	15 750 000
Non current	2 356 961	2 356 961
Financial assets	2 356 961	18 106 961
13.1 Equity investments at FVOCI include the following:		
Listed investments		
The Royal Eswatini Sugar Corporation Limited – 93 000 ordinary shares at quoted market value	1 413 600	1 413 600
Greystone Partners Limited – Nil (2022: 5 000 000) ordinary shares at quoted market value	–	15 750 000
	1 413 600	17 163 600
Greystone Partners Limited shares were disposed of during the period under review, as previously authorised by the Board.		
Unlisted investments		
Swaziland Building Society permanent shares	943 361	943 361

The cost of the Eswatini Building Society permanent shares approximates fair value. The shares will be redeemed at nominal value.

	2023 E	2022 E
14. INVENTORY		
Ballast	1 894 633	214 018
Concrete and timber sleepers	3 060 980	2 574 013
Petrol, diesel and spares	10 025 396	7 135 836
Rails	8 642 441	7 790 757
Wheel sets	1 073 530	1 073 530
	24 696 980	18 788 154
15. TRADE AND OTHER RECEIVABLES		
Transnet Freight Rail	24 775 850	40 958 983
African Rail and Traction	2 072 700	1 026 703
Grindrod Logistics Africa	24 327 121	10 266 197
Traffic receivables	2 198 129	3 056 029
Allowance for credit losses	(5 233 812)	(2 713 705)
Trade receivables – net	48 139 988	52 594 207
Sundry receivables	5 679 922	4 232 891
Staff receivables	37 819	64 039
Prepayments	2 009 861	1 919 767
Value Added Tax refund	3 593 123	1 560 045
Fuel levy refund receivable	680 345	823 827
Other receivables	12 001 070	8 600 569
Total trade and other receivables	60 141 058	61 194 776

The above values of trade and other receivables approximate fair value. Concentration of credit risk is in respect of Transnet Freight Rail and five other large customers. As of 31 March 2023, E5 233 812 (2022: E2 713 705), has been provided for as impaired. The remaining customers have no history of default. Management believes that there is no additional credit risk with respect to accounts receivable and no further allowance for credit losses is considered necessary. Eswatini Railways does not hold any collateral as security.

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

	Gross 2023 E	Impairment 2023 E	Gross 2022 E	Impairment 2022 E
15. TRADE AND OTHER RECEIVABLES <i>(continued)</i>				
The ageing of trade and other receivables as at the reporting date was as follows:				
Not past due	60 141 058	–	61 194 776	–
Past due	5 233 812	(5 233 812)	2 713 705	(2 713 705)
	65 374 870	(5 233 812)	63 908 481	(2 713 705)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

The carrying amount of trade and other receivables is denominated in the following currencies:

	2023 E	2022 E
Rand (ZAR)	26 848 550	41 985 686
Emalangeni (SZL)	38 526 320	21 922 795
	65 374 870	63 908 481
The Rand and the Emalangeni are linked in a ratio of 1:1.		
16. ESWATINI GOVERNMENT EQUITY		
Equity contribution	246 689 381	246 689 381
Grant converted to equity	200 091 044	200 091 044
	446 780 425	446 780 425

The Government of Eswatini converted various loans and grants amounting to E12 859 934 to fixed permanent capital on 23 February 1994. The purpose of this was to relieve the Railways' debt burden and thereby enable it to undertake its capital works programme without an unmanageable level of debt. The Government further granted the Company E187 231 100 towards development of Eswatini Rail Link Project (ESRL). The funds are ringfenced and are not available for operational use by ESR.

17. BORROWINGS

	2023 E	2022 E
Standard Bank Eswatini – Mpaka ICD loan	9 249 526	–
Nedbank Eswatini Limited – land loan	5 557 717	7 857 462
The Public Service Pensions Fund	161 597 260	161 256 164
Finance lease liabilities (Note 17.1)	92 351 639	128 141 823
Total liabilities	268 756 142	297 255 449
Analysed as:		
Non-current		
Finance lease liabilities (Note 17.1)	46 231 065	87 037 736
Long-term loans	161 495 064	155 557 717
	207 726 129	242 595 453
Current		
Finance lease liabilities (Note 17.1)	46 120 574	41 104 087
Long-term loans	14 909 439	13 555 909
	61 030 013	54 659 996

The Nedbank long-term loans were advanced to acquire locomotives and wagons, and these are secured by the following:

- Lien over funds held on Corporate Deposit investment limited to E15 000 000;
- Deed of hypothecation for E12 575 000 over wagons;
- Deed of hypothecation for E34 000 000 over wagons and fuel tankers against any further drawdowns on the MTL;
- First Continuing Covering Mortgage Bond for E11 250 000 over portion 10 (a portion of portion 1) of Farm No. 850 Hhohho District, Eswatini;
- Lien over assets financed under RCL facility;
- Comprehensive insurance cover over assets financed under RCL facility with Nedbank Eswatini Limited noted as first loss payer; and
- Deed of pledge and cession over call account balances.

The locomotives' facility is repayable in monthly instalments of E2 372 980, and the wagons' facility is repayable in monthly instalments of E1 657 601. The lease expiry date as stated in the original contracts was amended from October 2024 to 31 January 2025. The interest rate for these facilities is the Eswatini prime rate and at year end the rate was 10.25% (2022: 7.25%).

A loan amounting to E150 000 000 was received from The Public Service Pensions Fund. The loan attracts interest annually at prime plus 1%. A rate of 11.25% was applied in the first year commencing on 3 May 2019, interest thereafter is at 9%. The loan principal is payable after five years and annual repayments of interest are repayable on each subsequent anniversary date. The loan agreement provides for the Railways to extend the final repayment of principle date and it is anticipated that the loan repayment date will be extended for an additional five years in May 2024.

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

		Future minimum lease payments	
		2023	2022
		E	E
17. BORROWINGS <i>(continued)</i>			
17.1 Finance lease liabilities			
Finance lease liabilities are payable as follows:			
Less than one year		62 421 305	52 465 983
Over one year		51 251 429	96 053 323
		113 672 734	148 519 306

The finance lease liabilities relate to 25 (2022: 25) motor vehicles, four locomotives and 75 wagons which were acquired through finance lease agreements from Nedbank Eswatini Limited and Thelo Rolling Stock (Pty) Ltd respectively.

The interest rate implicit in the lease agreements, differs from asset to asset, and on rates obtained on acquisition of the assets. The payments fall due on the first of each month.

All the risk of loss, damage, destruction or otherwise in and onto the vehicles, locomotives and wagons were passed to Eswatini Railways on signature of the agreements.

The lease liability is secured by motor vehicles, locomotives and wagons (note 12) and are repayable over a maximum period of 120 months (refer to the reconciliation of the minimum lease payments above). The lease agreements for locomotives and wagons from Thelo Rolling Stock (Pty) Ltd are repayable in instalments of E4 030 581 per month and are subject to changes in the prime rate and LIBOR rate. The renegotiated lease agreement contains an embedded derivative that is disclosed in note 31.

Finance costs		Present value of future lease payments	
2023	2022	2023	2022
E	E	E	E
16 300 731	11 361 896	46 120 574	41 104 087
5 020 364	9 015 587	46 231 065	87 037 736
21 321 095	20 377 483	92 351 639	128 141 823

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

	2023 E	2022 E
18. GENERAL RESERVE		
Opening balance	85 231 805	85 231 805
<i>Transfer from retained earnings</i>		
25% of current year profits after taxation	2 792 698	–
Balance at year end	88 024 503	85 231 805
It is the policy of the Railway to transfer 25% of profits after taxation to a general reserve account through an appropriation of retained earnings. This is accounted for through the statement of changes in equity.		
19. CAPITAL RESERVES		
East/West line – concrete sleepers	15 800 000	15 800 000
East/West line rehabilitation	87 150 000	87 150 000
Matsapha Dry Port	6 952 000	6 952 000
	109 902 000	109 902 000
Release of depreciation:		
Prior years	(49 455 900)	(46 708 350)
Current year	(2 747 550)	(2 747 550)
Balance at year end	57 698 550	60 446 100
These amounts relate to a grant received from the Government of Eswatini for the rehabilitation of the East/West Line and the Matsapha Dry Port expansion.		
An amount equivalent to depreciation charged to profit or loss relating to the assets acquired, as stated above, is released from capital reserves each year. This is accounted for through the statement of changes in equity.		
20. FAIR VALUE RESERVE		
Balance at the beginning of the year	12 071 567	11 321 567
Disposal of investment in current year	(9 500 000)	–
Current year fair value (losses)/gains	(1 250 050)	750 000
Balance at year end	1 321 517	12 071 567
The fair value reserve arises from fair value gains on financial assets. (note 13.1)		
21. TRADE AND OTHER PAYABLES		
Trade and other payables	37 333 166	51 112 338
Accruals	27 552 650	22 916 042
	64 885 816	74 028 380

22. PAYROLL ACCRUALS

	2023 E	2022 E
Leave pay	4 296 121	4 703 457
13 th cheque	1 399 385	1 407 091
Gratuity	654 513	608 879
	6 350 019	6 719 427
22.1 Reconciliation of movements in payroll accruals		
Opening balance	6 719 427	7 243 997
Utilised/reversed	(369 408)	(524 570)
Closing balance	6 350 019	6 719 427

Leave pay

This amount represents a liability in respect of employees' leave days not utilised at year end.

13th cheque

This relates to the 13th salary cheque that is paid to all permanent employees.

Gratuity

An accrual is made for payments in accordance with the renewable contracts of eligible employees. The accrual is calculated at the percentage rate of the value of the annual salary included in the remuneration package of the employees as at the terminal date recognised over the number of completed years of service.

23. CASH AND CASH EQUIVALENTS

	2023 E	2022 E
Cash on hand	6 221	4 007
Short-term deposits	271 301 945	312 851 656
Bank overdraft	(14 416 726)	(9 653 572)
Cash and cash equivalents	256 891 440	303 202 091
Fixed deposits	20 847 671	20 530 000
Cash and bank balances for the purposes of the statement of cash flows:	277 739 111	323 732 091

The Railways has an overdraft facility of E15 000 000, obtained for the purpose of working capital, at rates linked to the prime overdraft rate and is payable on demand. At year end the rate was 10.25% (2022: 7.5%).

Cash and cash equivalents amounting to E226 741 480 are set aside to exclusively fund Eswatini Rail Link project activities. These funds are held with Sanlam Enhanced Funds and Old Mutual.

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

	2023 E	2022 E
24. INCOME TAX EXPENSE		
Current income tax		
current year (Note 28)	–	–
prior year (Note 28)	–	851 929
Deferred income tax		
current year (Note 25)	6 793 222	(4 238 303)
prior year (Note 25)	5 552 788	–
	12 346 010	(3 386 374)
Eswatini Railways had an estimated tax loss at 31 March 2023 which is available for setoff against future taxable income amounting to E136 265 440 (2022: E173 235 434).		
<i>The reconciliation between accounting profit and the tax expense is as follows:</i>		
Profit/(loss) before income tax	23 516 804	(16 176 422)
Tax calculated at a tax rate of 27.5% (2022: 27.5%)	6 467 121	(4 448 516)
Income not subject to tax	–	–
Expenses not deductible for tax purposes	326 101	210 213
Prior year tax – normal tax	–	851 929
Prior year tax – deferred tax	5 552 788	–
	12 346 010	(3 386 374)
25. DEFERRED TAX ASSETS		
Deferred income taxes are calculated in full on temporary differences under the liability method using a tax rate of 27.5%.		
<i>The gross movement on the deferred income tax account is as follows:-</i>		
At the beginning of the year as previously reported	24 746 032	20 507 729
Income tax charge to statement of comprehensive income (Note 24)	(12 346 010)	4 238 303
At the end of the year	12 400 022	24 746 032

25. DEFERRED TAX ASSETS (continued)

As at 31 March 2023

Deferred income tax asset – net

At 31 March 2022	47 639 744	(28 502 926)	2 238 207	3 371 007	24 746 032
Charged to statement of comprehensive income	(10 166 748)	(4 623 593)	5 201 108	(2 756 777)	(12 346 010)
At 31 March 2023	37 472 996	(33 126 519)	7 439 315	614 230	12 400 022

As at 31 March 2022

Deferred income tax asset – net

At 31 March 2021	41 539 948	(27 966 312)	2 859 849	4 074 244	20 507 729
Charged to statement of comprehensive income	6 099 796	(536 614)	(621 642)	(703 237)	4 238 303
At 31 March 2022	47 639 744	(28 502 926)	2 238 207	3 371 007	24 746 032

26. CASH GENERATED FROM OPERATIONS

	2023 E	2022 E
Profit/(loss) before income tax	23 516 804	(16 176 422)
Adjusted for:		
Depreciation of property, plant and equipment (Note 12)	18 588 510	18 493 003
Depreciation of investment property (Note 11)	128 279	128 341
Loss on modification on lease	–	1 016 480
Depreciation of right-of-use asset (Note 32.1)	–	254 120
Loss/(profit) on disposal of property, plant and equipment (Note 6)	636 813	(1 081 217)
Investment income (Note 8)	(10 743 796)	(14 466 159)
Interest expense (Note 8)	21 599 951	25 933 264
Fair value change in embedded derivative (Note 31)	(10 024 643)	(2 557 228)
	43 701 918	11 544 182
Changes in:		
Inventories	(5 908 826)	(9 144 525)
Trade and other receivables	1 053 718	(10 768 548)
Trade and other payables	(9 142 564)	32 350 865
Payroll accruals	(369 408)	(524 570)
Cash generated from operations	29 334 838	23 457 404

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

	2023 E	2022 E
27. RELATED PARTIES		
Eswatini Railways is a wholly owned Eswatini Government parastatal.		
(i) Government of the Kingdom of Eswatini		
In the current and previous year no equity transactions were entered into between Eswatini Railways and the Government of the Kingdom of Eswatini.		
Certain transactions are conducted on an arm's length basis with parastatals owned by the Government of the Kingdom of Eswatini including, but not limited to electricity, water, telephone, municipal rates and taxes, corporate taxes and PEU Management fees.		
PEU Management fees	2 091 309	2 081 035

(ii) Eswatini Railways classifies all Eswatini Central Government entities as related parties

(iii) Transactions with key management personnel

Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the Railways, directly or indirectly, including all directors as well as close members of the family of any of these individuals.

Transactions with key management personnel include salaries and bonuses. Compensation paid to directors and other key management personnel is shown below.

Compensation

Compensation for directors includes the Chief Executive Officer's salary and post-employment benefits. Key management personnel comprises of the Chief Financial Officer, Director Engineering, Director Human Resources and Director Operations.

	Directors E	Key management personnel E	Total E
2023			
Short-term employee benefits	2 030 176	4 295 753	6 325 929
Post-employment benefits	–	–	–
	2 030 176	4 295 753	6 325 929
2022			
Short-term employee benefits	1 385 649	4 727 505	6 113 154
Post-employment benefits	–	–	–
	1 385 649	4 727 505	6 113 154

Non-executive directors' emoluments is disclosed in note 6.

	2023 E	2022 E
28. INCOME TAX LIABILITY/(ASSET)		
Opening balance	(6 470 170)	(7 322 099)
Income tax charge (refer to note 24)	–	851 929
Tax paid	(370 634)	–
Closing balance	(6 840 804)	(6 470 170)

29. FINANCIAL INSTRUMENTS

29.1 Financial instruments by category

The carrying amounts of each category of financial asset and liability as defined in IFRS 9 are as follows:

	Amortised cost E	Assets at fair value through profit or loss E	Assets at fair value through OCI E	Total E
31 March 2023				
<i>Assets as per statement of financial position</i>				
Financial assets	–	–	2 356 961	2 356 961
Trade and other receivables	65 374 871	–	–	65 374 871
Cash and bank balances	277 739 111	–	–	277 739 111
Total	343 113 982	–	2 356 961	345 470 943
31 March 2022				
<i>Assets as per statement of financial position</i>				
Financial assets	–	–	18 106 961	18 106 961
Trade and other receivables	63 908 481	–	–	63 908 481
Cash and bank balances	323 732 091	–	–	323 732 091
Total	387 640 572	–	18 106 961	405 747 533

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

29. FINANCIAL INSTRUMENTS *(continued)*

29.1 Financial instruments by category *(continued)*

	Liabilities at fair value through profit and loss E	Amortised cost E	Total E
31 March 2023			
<i>Liabilities as per statement of financial position</i>			
Trade and other payables	–	64 885 816	64 885 816
Loans and borrowings	–	268 756 143	268 756 143
Embedded derivatives	2 233 563	–	2 233 563
Total	2 233 563	333 641 959	335 875 522
31 March 2022			
<i>Liabilities as per statement of financial position</i>			
Trade and other payables	–	74 028 380	74 028 380
Loans and borrowings	–	297 255 449	297 255 449
Embedded derivatives	12 258 206	–	12 258 206
Total	12 258 206	371 283 829	383 542 035

29.2 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the external credit ratings (if available) or historical information about counterparty default rates.

	2023 E	2022 E
<i>Trade receivables</i>		
Counterparties without external credit ratings	26 525 250	13 322 226
Counterparties with external credit ratings	24 775 850	40 958 983
The entity's receivables domiciled in Eswatini do not have external credit ratings. The entity has categorised all its debtors as low risk.		
<i>Cash at bank and short-term deposits</i>		
Cash and bank balances (Note 23)	277 739 111	323 732 091

For cash and cash equivalents, deposits are only placed with banks and financial institutions of a reputable nature. Fixed deposits are balances that mature after three months but before 12 months.

30. COMMITMENTS AND CONTINGENCIES

30.1 Capital commitments

	2023 E	2022 E
Purchase of locomotive (one) class 43	65 000 000	–
Eswatini Rail Link project	314 249 800	435 000 000
ICD Expansion	19 700 000	367 639 692
Normal capital expenditure	25 236 595	56 912 838
	424 186 395	859 552 530

The expenditure will be funded by internally generated cashflows, existing cash and cash equivalents, undrawn overdraft facilities and long-term loans. Eswatini Railways holds E226 741 480 in cash and cash equivalents received from Government to exclusively fund the Eswatini Rail Link project activities (refer note 23).

Normal capital expenditure is expected to be incurred in the next financial year. The other capital expenditure is expected to be incurred in the next five financial years.

30.2 Contingencies

Eswatini Railways is defending a number of actions brought by former employees. Liability is not admitted, and Eswatini Railways will defend itself against the actions. Due to the nature of the claims, a realistic estimate of the potential liability and legal costs is not practical. The directors are of the opinion that the total liability and costs, if any, would not be material.

30.3 Contingent liabilities and commitments

As part of bank overdraft facilities Eswatini Railways has the following contingent liabilities with Nedbank Eswatini who have issued guarantees with no expiry dates on behalf of Eswatini Railways.

	2023 E	2022 E
Guarantees issued		
Eswatini Revenue Service	946 255	834 600
Department of Labour	300 000	300 000
Thelo Rolling Stock	12 606 690	12 606 690
Bank facilities		
Current account	15 000 000	15 000 000
Revolving Credit Line	10 000 000	10 000 000
Medium-term loan	5 559 278	–

The bank facilities attract interest at the Eswatini prime rate. At year end the rate was 10.25% (2022: 7.5%).

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

	2023	2022
	E	E
31. EMBEDDED DERIVATIVES		
Adjustments arising from US\$/ZAR exchange rate	1 315 001	4 461 588
Adjustments arising from LIBOR rate fluctuations	918 562	7 796 618
	2 233 563	12 258 206

Eswatini Railways entered into a lease arrangement with Thelo Rolling Stock for locomotives and wagons.

These leases are denominated in South African Rands (ZAR). The arrangement allows for adjustments to be made based on changes in the South African prime lending rate, the LIBOR rate and the US\$/ZAR exchange rate.

Since the leases are denominated in ZAR, adjustments based on changes in the South African prime lending rates are closely related to the host contract and as such are not embedded derivatives.

However adjustments arising from changes in the LIBOR rate and US\$/ZAR exchange rate (which are not closely related to the host contract) are considered to be multiple embedded derivatives.

The following are the inputs and assumptions made in the valuation of the embedded derivatives;

- The maturity date used for the valuation of the embedded derivatives is 25 September 2024.
- The US\$/ZAR forward curve has been used for projecting the future US\$/ZAR exchange movements.
- The US\$/ZAR forward curve up to 5 years has been used. The forward points beyond 5 years have been extrapolated linearly.
- The LIBOR rate was projected using the forward rates from the US\$3M LIBOR swap curve.

	2023	2022
	E	E
32. LEASES		
32.1 Right-of-use assets (ROA)		
Present value of ROA		
Balance at the beginning of the year	–	2 433 185
Current year recognition	–	–
Termination of lease	–	(2 433 185)
Balance at the end of the year	–	–
Accumulated depreciation		
Balance at beginning of the year	–	(1 162 585)
Current depreciation	–	(254 120)
Termination of lease	–	1 416 705
Balance at end of the year	–	–
Carrying value at the beginning of the year	–	1 270 600
Carrying value at 31 March 2023	–	–

	2023	2022
	E	E
32. LEASES <i>(continued)</i>		
32.1 Right-of-use assets (ROA) <i>(continued)</i>		
Golela	-	-
A.J. Van Coller	-	254 120
Depreciation for ROA	-	254 120
Loss on termination of lease	-	(1 016 480)
32.2 Lease liabilities		
Lease liabilities included in the statement of financial position at 31 March		
Current	-	-
Non-current	-	-
	-	-
Amounts recognised in profit or loss		
Finance cost	-	98 890
Capital payments	-	227 973
Lease payments	-	326 863
Amounts recognised in statement of cash flows		
Total cash flow for leases	-	(326 863)
Gain on termination of lease	-	1 313 792

33. SUBSEQUENT EVENTS

At the date of approval of the financial statements there were no material events that occurred subsequent to the reporting date that required adjustments to amounts recognised in the financial statements.

Notes to the financial statements *(continued)*

for the year ended 31 March 2023

34. GOING CONCERN

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its financial obligations as and when they become due as disclosed in the statement of financial position. The Company currently has sufficient financial resources to enable it to continue operating for the next 12 months from the date of approval of these financial statements.

The directors are of the view that the strong financial position, liquidity and short-term investments together with access to facilities from the shareholder and financial institutions should result in the Railways being able to continue as a going concern. Eswatini Railways is a Government parastatal but it does not solely rely on Government for financial support.

At year end, net cash and cash equivalents amounted to E277 million, with E257 million readily accessible for use in the operations of the Eswatini Railways thus providing sufficient liquidity for the Railways for at least 12 months after the date of approval of the financial statements.

The Railway has long-term debt obligations (loans and leases) repairs and maintenance costs and salaries and wages costs as its major monthly obligations. In a worst case scenario, the entity will be able to maintain its obligations with the cash resources it already has at its disposal. Cash flow forecasts for the next 12 months show a positive cash influx to the Railways, which confirms the use of the going concern assumption.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. After taking into account the impacts described above management are of the view that no material uncertainty exists which may cast significant doubt on the Railways' ability to continue as a going concern and, therefore, it will be able to realise its assets and settle its liabilities in the ordinary course of business. The directors concur with management's assessment.

The Board of Directors believe that Eswatini Railways has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis.

Business outlook – Russia and Ukraine conflict

The effects of the war between Russia and Ukraine also impacted on the financial performance of the entity for the year ended 31 March 2023 as the organisation experienced significant price increases in certain expenses including fuel. This was partially offset by increased revenue from coal exports. There is no other direct financial impact on the financial statements. The organisation neither holds any investments in Russia, nor does it have any business partners in Russia.

Detailed income statement not subject to audit opinion for the year ended 31 March 2023

	2023 E	2022 E
Revenue	327 034 552	247 275 373
Other income	20 393 604	18 876 940
Interest income	20 768 439	17 023 387
	368 196 595	283 175 700
Operating and administrative expenses		
Accident compensation and investigation	(58 072)	1 453 253
Advertising and promotions	396 529	423 192
Assessment rates and royalties	616 910	683 333
Auditors remuneration	599 318	1 391 319
Bad debts written off/(recovered)	5 028 729	(347 100)
Bank charges	1 138 943	906 718
Business meetings	154 156	199 823
Cartage	(881 513)	(337 121)
Cleaning	1 368 436	1 133 200
Computer expenses and licenses	4 115 649	2 267 455
Consultancy fees	147 432	87 800
Consumables	501 791	403 225
Corporate social responsibility	676 263	1 119 042
Depreciation	18 716 788	18 875 464
Directors expenses	516 693	800 328
Electricity and water	11 211 591	10 045 688
Employee relations	210 770	261 321
Fuel and containers traffic	930 174	1 009 781
Fuel imports and exports	36 639 075	11 990 091
Fuel locomotive expenses and recovery	(1 031 286)	(3 462 255)
Fuel operational motor vehicles	3 641 184	2 271 382
Haulage and operations	(1 335 097)	(916 495)
Heavy plant hire	3 335 769	1 018 797
Insurance	10 758 072	10 479 153
Legal fees	401 072	386 963
Loan interest and finance costs	21 599 951	25 933 264
Locomotives and wagon hire	5 632 968	1 732 258
Medical and IOD expense	72 690	767 746
Membership fees	1 006 542	764 173
Membership subscriptions and periodicals	76 774	98 483
Operating costs – CFM	19 688 118	2 564 165
Perway material	4 492 723	7 606 333
PEU management fees	2 091 309	2 081 035
Printing and stationery	376 997	285 441
Protective clothing	1 470 840	2 193 660
Public relations	268 733	266 488
Rental accommodation	730 974	853 711

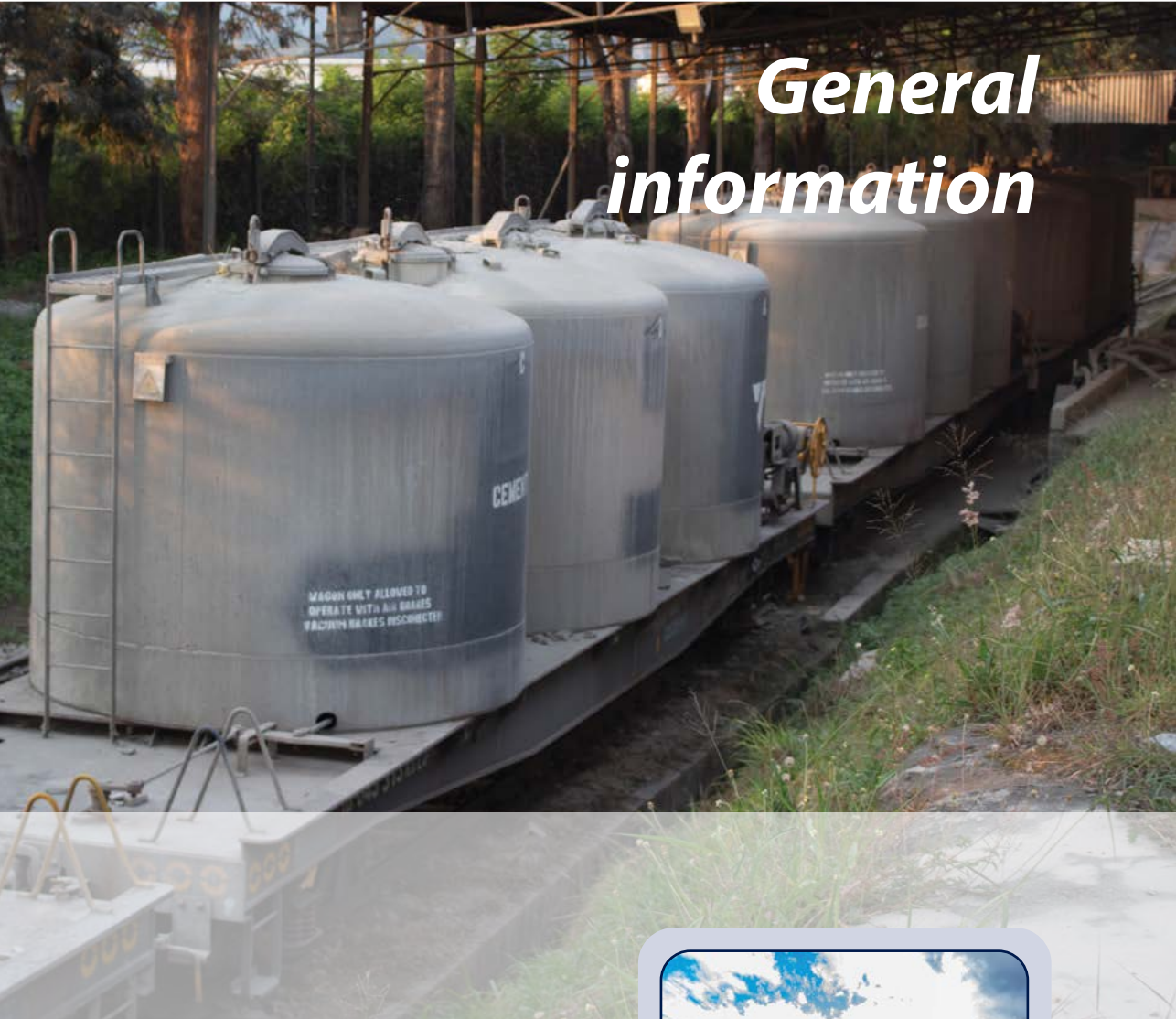
Detailed income statement not subject to audit opinion *(continued)*

for the year ended 31 March 2023

	2023	2022
	E	E
Operating and administrative expenses <i>(continued)</i>		
Repairs and maintenance	36 814 888	41 193 139
Risk management	10 576	9 292
Safety and security	4 952 574	3 854 984
Salaries and wages	133 992 412	131 948 602
Strategic plan expenses	2 513 136	4 167 440
Tarpaulins	19 000	–
Telephone	4 200 359	5 395 444
Tender Board expenses	183 364	72 746
Training and education	2 666 339	2 241 730
Transport services	781 562	589 168
Travelling and accommodation	1 556 879	659 124
Wellness	295 692	367 744
Work assignment	748 202	1 561 595
Loss/(profit) on disposal of property, plant and equipment	636 813	–
Total expenditure	344 679 791	299 352 122
Profit/(loss) before income tax	23 516 804	(16 176 422)



General information








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CONTACT DETAILS

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