
STATEMENT

I, the undersigned,

FRANCIS QUENTIN CALLARD

do hereby state that:

1. I have been requested by the Commission to provide a statement in respect of the procurement processes followed by Transnet in the awarding of certain high value tenders to specific entities where I was personally involved in such processes. Accordingly, this statement deals with my personal involvement in the procurement process and subsequent events relating to the awarding of the following tenders and/or contracts:
 - 1.1. Acquisition of the 100 21E Electric locomotives
 - 1.2. Acquisition of the 1064 Diesel and Electric locomotives
2. The facts contained in this statement are both true and correct, and within my personal knowledge, unless the context provides otherwise. Where facts were provided by third parties, they are presented in the belief that they are true and correct and, in my considered opinion, I have no reason to believe otherwise.

Introduction

3. I qualified with a BSc in Electrical Engineering in 1970 and joined Transnet in October 1970 as an Assistant Engineer, Telecommunications. I retired in April 2012. I was subsequently contracted to Transnet for a further period of 5 years.
4. During my employment at Transnet I held various senior management positions.



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5. During my some 45 years of service at Transnet I managed various portfolios in Transnet Freight Rail (Freight Rail) and I gained significant experience in railway signalling, managing major new works projects, information technology, railway operations and railway infrastructure, business restructuring and engineering, business strategy and development of the business cases for major capital projects covering the technical and financial justification and viability of the projects. These business cases also covered the requirement and financial scope of capital related maintenance of infrastructure, locomotives and wagons.
6. I would like to record that I have been contracted by Mncedisi Ndlovu & Sedumedi (MNS) Attorneys to assist them with specialised railway expertise in the course of their investigation into the acquisition of the locomotives in terms of the mandate given to them by the Transnet Board of Directors, as well as other Transnet related investigations.
7. This statement is generally limited to my personal experience in my time at Transnet, the documents I have had access to during my career, subsequent interactions with Transnet, Transnet personnel, documents in the public domain and, occasionally documents provided by the Commission. Where documents are referenced through my contracting at MNS, these will be identified as such.
8. For the greater part of my contracting period, I used, with permission, my own laptop which was secured to connect to the Transnet network. My laptop served as the primary repository of my railway related knowledge and workings, including, but not limited to the locomotive tenders.
9. I would like to further record that MNS have reviewed my statement in a professional capacity, but the content is mine.



10. Where an amplification is requested that requires reference to information gained from my work with MNS, this will be identified as such.

Background to Transnet Freight Rail (TFR)

11. Transnet Freight Rail is an operating division of Transnet SOC Ltd and is the national freight rail carrier in South Africa.
12. TFR is a heavy haul freight rail company that specialises in the transportation of freight. The company maintains an extensive rail network across South Africa that connects with other rail networks in the sub-Saharan region, with its rail infrastructure representing about 80% of Africa's total network.
13. To give context to the situation at the time, in 2013/14 TFR transported 208.5 million tons of freight made up of:
- 13.1. 54.3 million tons export iron ore through Saldanha
 - 13.2. 68.2 million tons export coal through Richards Bay and
 - 13.3. 86 million tons of General Freight.
 - 13.4. This represented 14% of South Africa's annual freight tonnage.
14. Through Transnet, TFR owns and maintains:
- 14.1. A route network of approximately 22 000 km
 - 14.2. Approximately 2 132 locomotives
 - 14.3. More than 60 000 wagons



15. Transnet Freight Rail operates some 1 200 trains per day, conveying 98 commodity groups to over more than 4 000 origin – destination combinations. It is the largest railway in Africa and the Middle East.
16. The freight rail network is segmented into a number of operational corridors. The two largest corridors by tons (or volumes) conveyed are the iron ore export line from Sishen to Saldanha and the coal export line from the Mpumalanga coalfields to Richards Bay. The remaining corridors comprise the general freight network; so called because, unlike the iron ore and coal export corridors, they convey a diverse range of freight; hence the name, general freight. The branch lines are a minor part of the general freight network.

Locomotive acquisition history

17. Around 2008/09 I was tasked by the then Freight Rail Chief Executive, Siyabonga Gama (Gama) to develop a locomotive fleet plan for Freight Rail. I developed the initial fleet plan concepts with various experts within Freight Rail.
18. In 2010 I handed over responsibility for the fleet plan to Vilvalingum Nair (Senior Manager, Capital Program, Rolling Stock Maintenance) who developed a five-year plan for locomotives matched to market requirements.
19. In April 2011, the five-year plan was presented to the Transnet Board. It recommended the procurement of a total of 776 locomotives comprising 322 diesel locomotives and 454 electric locomotives for General Freight (GF) Market requirement of 155.8mt.
20. The Board approved the Locomotive Fleet Modernisation Plan at a cost of R23.6bn, subject to the submission of a holistic funding plan and affordability.
21. Around this time there was a change in the strategic thinking of Freight Rail. The strategy was to change from “responding to demand” to “creating capacity” with a view



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to inter alia, capturing “rail friendly” traffic that was conveyed by road. This was the origin of the Market Demand Strategy or MDS.

22. The MDS impacted the Locomotive Fleet Plan. In November 2011 I learnt that Gama had presented updated Locomotive Fleet Requirements to DPE. The General Freight Locomotive fleet plan was extended from five to seven years and the locomotive requirements were increased from 776 to 1064 with the tonnages increasing to 176 mt in 2018/19.

Acquisition of 100 locomotives for the Coal Export Line through confinement

23. The 100 locomotives for the Coal Export Line were not part of the 1064 locomotives. Their urgent procurement was predicated on the delay experienced in the 1064 acquisition to release locomotives to General Freight.
24. In this section I will present that:
- 24.1. The business case I prepared for the acquisition of 100 locomotives was unilaterally changed by Transnet Group executives and / or Freight Rail Supply Chain Services to favour CSR.
 - 24.2. The changes and the implications thereof, were material. The subsequent representation that was made to Board Acquisition and Disposal Committee (BADC), iro the business case I had prepared, was misleading in certain respects.
 - 24.3. The confinement to CSR, in my opinion, was flawed in concept and execution.
 - 24.4. The upfront payments before the first locomotive was delivered were excessive.



25. The sequence of events and supporting facts relating to the acquisition of the 100 locomotives and the business case I had prepared are set out below.

Sequence of Events

26. I prepared the first business case (also referred to as memorandum) in April 2012 and a revised business case in July 2013. Further changes were requested.
- 26.1. In September/October 2013, I was requested by Gama to update the memorandum to the BADC for an additional 100 19E type equivalent electric locomotives and 80 diesel locomotives for the coal export line. The memorandum dated 15 October 2013 was signed by Gama, Group Supply Chain Officer (GSCO) Pita, Group General Manager, Capital Integration Mohammody and Singh. (**Annexure 1 – BADC 100 60 Revised V11a 0910.docx**)
27. The said memorandum recommended confinement to Mitsui & Co African Railway Solutions (PTY) Ltd (MARS), a subsidiary of Japan's Mitsui & Co Limited on the basis of:
- 27.1. Compatibility with the existing 100 19E type locomotives used on the coal export line,
- 27.2. Availability of facilities without having to establish new facilities,
- 27.3. Saving in design, testing and type approval, and
- 27.4. Fastest possible delivery.
28. Earliest possible delivery was paramount as delivery of the 100 locomotives would release aged locomotives from the Coal Line to General Freight. These locomotives would protect General Freight traffic pending delivery of the 1064 locomotives whereafter these aged locomotives would be retired.



29. The 19E type locomotive is a heavy haul locomotive specifically intended for use on the coal export line with its long trains of approximately 16000 tons. It is a 26 ton per axle locomotive while General Freight locomotives are limited to 22 tons per axle. It is also more powerful than the General Freight locomotives which haul trains of up to approximately 6500 tons.


29.1. The 19E locomotives are 311 kilonewton tractive effort locomotives while the 20E locomotives are 270 kilonewton tractive effort locomotives.

30. The memorandum specifically stated (**Annexure 1** page 12 para 63) that the 20E type (i.e. the 95 locomotives) recently awarded to CSR was not suitable, as it is a General Freight locomotive of 22 tons per axle and is not intended for heavy haul use.

31. Further, the memorandum also stated that the CSR 95E type locomotive still had to be tested and only thereafter would it be possible to say to what extent it could replicate the heavy haul capabilities of the 19E. Furthermore, an extension to the 95 20E contract would not be an acceptable procurement mechanism as it would entail a material design amendment which could be challenged per the Procurement Procedures Manual (PPM).

32. I was informed through a sms from Gama on 21 October 2013 that the Group Chief Executive, Mr Molefe had withdrawn the memorandum at the BADC meeting on the same day. There was confusion that day as I had gone to the BADC meeting to be on standby for the 1064 locomotives and was summarily recalled by Gama. (**Annexure 2**)

33. On 22 October 2013, I sent a sms to Gama requesting direction on the way forward. Gama replied via sms as follows: *"I believe it remains withdrawn, im now trying to see how we can get lease locomotivea from Queensland. Gce just said to me if i need anyrhing it must be less than a billion if its capital and for a confinement it must be within his authority!"* (**Annexure 2**)

A handwritten signature in black ink, appearing to be 'HJ' followed by a large flourish and the number '7'.

34. I later prepared an updated version which Gama signed on 25 November 2013. This version still recommend confinement to MARS. (**Annexure 3**)

35. On the afternoon of Friday 18 January 2014, I received the following sms from Gama:

"Hi Francis and JD, group has adked that we find R500m additional revenue for next year, they also want us to add 1000 wagons in Capex for TE, ive suggested that we would need 80, not 60, class 43 diesels...they are asking that we table a business case for 80 , but it needs to be signed off by 10:00 on monday in order for it to be on BADC pack for next friday's meeting 24 January... What miracle can you work for me ?...siya" (**Annexure 4**).

36. I appraised Pragessan (JD) Pillay, General Manager: Logistics Integration of the sms received from Gama. Pillay was responsible for all operational aspects of the locomotive fleet and was a close working colleague on all locomotive matters. The heavy haul coal line locomotive and 1064 business cases were developed in close co-operation with Pillay and incorporated operational changes and efficiency improvements he would be responsible for implementing.

37. JD replied as follows to Gama and copied me. *"Boss I had a chat with Francis. We will be meeting tomorrow to get the case out. We do have tons we will be tracking above the budget for next year. These are covered by resources but not reliable as we like it to be. Also Polokwane needs the 34200s replaced. We had a plan to hold them together with Copex (R1.5m per loco per year for 2 years) but they are just to tired and money won't solve the problem of reliability just to pay for repairs when they fail. The idea is to replace the major part of the Coal Diesels with 43 and cascade the 34/37 GMs to Polokwane and areas required. Please advise should we put in improvements from 75 to 76.5 on Coalline with some GFB or 2mtons + above on GF. The first will plan will allow the Coalline to become more stable with the 100 additional 19Es. Cc Francis"* (**Annexure 4**)



38. On Monday, 20 January 2014, I mailed a pdf version of the revised business case to Gama (BADC 100 80 Revised V14 0120; **Annexure 5 and 5A**) and a word version to Gama's PA and Singh's PA and on Tuesday 21 a word version to Thamsanqa Jiyane, Supply Chain Officer, Freight Rail. (**Annexure 6**)
39. On the morning of Wednesday 22 January 2014, I received a mail from Lindiwe Mdletshe from Supply Chain Services, requesting my assistance on formatting my memorandum of the previous Monday (**Annexure 7 and 7A**). When I perused the memorandum, I noticed that the memorandum had been changed to give effect to confine and award to CSR for 100 electric locomotives.
40. A comparison of my original business case of 20 January 2014 (...V14 0120..) with that received from Mdletshe (.....V15 0120 GP.docx) (**Annexure 8**) revealed that the business case had been materially amended, inter alia:
- 40.1. References to 19E equivalent had been removed throughout the document.
 - 40.2. The motivation to confine to MARS had been removed and replaced with confinement to CSR.
 - 40.3. Also removed was the benefit of standardisation of locomotives. (pages 14 and 15).
 - 40.4. The supplier development of MARS was questioned yet the specific targets per category in the table of version 14 were removed. (page 22)
 - 40.5. CSR was motivated as *"having been adjudicated as the best bidder during the 95 electric loco process as well as joint on the 1064 process"* (page 15)
 - 40.6. To the statement (page 90) that *"Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective*



of coming in within the R34.34m per loco”, was added the rider “which will be used as a guide as is dependent on forex fluctuation.”

- 40.7. **Extend current 20E contract for 95 CSR Locomotives:** (Page 20) was changed as follows *“The 20E currently on order is a 22 ton per axle GFB locomotive and is not intended for heavy haul use on the Coal Export Line. ~~The first delivery is awaited, the locomotive has still to be tested and it is at present unproven. Only after extensive type testing will it be possible to say whether and to what extent it can replicate the heavy haul capabilities of the 19E.~~ Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.”*
41. The base price of the locomotive as given in Japanese yen was not changed. Given the change in production country this should have been changed.
42. I was taken aback by these unilateral changes in the memorandum but did not act immediately.
43. As prime author of the business case/memorandum I was not consulted on the abovementioned changes and to the best of my knowledge none of my technical and operational colleagues were consulted. I fully believe, that had they been consulted, they would have referred to me knowing of my involvement with the business case.
44. I deliberated long and hard on the Wednesday evening on the implications of what I had learnt. On Thursday afternoon, 23 January 2014, I emailed Gama and Jiyane, expressing my concern at the unilateral changes to the business case/memorandum I submitted on Monday in respect of the 19E type heavy haul locomotives to an unspecified general freight locomotive confined to CSR. **(Annexure 9)**



45. My mail to Gama and Jiyane opens with: *"This is a difficult mail to write. In helping to format a recent version of the 100 and 80 locomotive business case on Wednesday 22nd, I noticed that the case was changed from that which I had submitted on Monday. This mail is because of the nature of those changes and the implications. The implications are technical and in the rationale for the acquisition which was speedy delivery to mitigate MDS volumes at risk."*

46. The essence of my concerns inter alia covered the following issues:

- 46.1. Technical changes
- 46.2. Impact on delivery
- 46.3. MDS volumes put at risk
- 46.4. Locomotive interoperability
- 46.5. Additional costs, and
- 46.6. Procurement process.

47. Later that afternoon I received a telephone call from Jiyane questioning why I had sent that email to Gama and himself. The essence of my response to Jiyane was that the business case/memorandum had been altered resulting in unsuitable locomotives being specified and procured.

48. During the preparation of my statement, the Commission provided me with three pertinent emails from which it is evident that Gama, Singh and Molefe had knowledge of my concerns per the email trail below:

- 48.1. The first was an email sent from Gama to Singh late on 23 January
(**Annexure 10**) essentially reflecting my concerns. It reads " Hi mr Singh, I'm

afraid the submission on the 100 locomotives is a mess and will need to be withdrawn.

The 20E locomotive is a 22 ton per axle locomotive suitable for GFB while the 19E locomotive is a 26 ton per axle beast suitable for the coalline. The two locomotive types are not interoperable. While CSR can make additional locomotives in China in a very short space of time to mitigate against MDS volume loss, this would be counter to our localization strategy, and would have to be spelt out. The 85 locomotives to be assembled by TE has not yet commenced , so we cannot yet make an argument that this would reduce the risk.”

- 48.2. The second email was from Singh to Gama on the morning of Friday 24 January saying that they would discuss the matter this morning (of 24 January) (**Annexure 11**).
- 48.3. The third mail, also on the morning of Friday 24, was where Singh forwarded Gama’s mail to Molefe for information. (**Annexure 12**)
49. The minutes of the BADC meeting of 24 January 2014 (**Annexure 13**)¹ record the attendance of Molefe and Singh and the partial attendance of Gama and Jiyane. The BADC discussed the acquisition of the 100 Class 19E Electric locomotives.
 - 49.1. The BADC pack contained the revised submission (**Annexure 14**)² signed by Singh and Molefe.
50. The minutes do not reflect that the BADC was informed of my concerns raised in the email correspondence above.

¹ Provided by Zondo Commission

² Obtained through MNS



51. The minutes reflect that the BADC was misled by Management as to the validity of the confinement process by:
- 51.1. Creating the impression that a 26 ton heavy haul CSR locomotive existed when in fact this was not the case.
 - 51.2. Using Chinese manufacturing facilities to motivate for the speedy delivery which would have negated local content requirements. See Gama's mail in this regard.
 - 51.3. Purporting that the confinement was in compliance with the Procurement Procedure Manual when no previous product existed.
52. If it was accepted that the locomotives could or should not be confined to Mitsui, then the correct procedure would have been to go on open tender.
53. The 100 locomotives were confined to CSR.
54. On 4 February 2014, I received a sms from Gama in response to my email of 23 January stating: *"I have just seen your email, I would explain to you the GCE's thinking"*. This was not followed up.
- 54.1. Per Gama's mail to Singh on 23 January, this was not true.
55. On 18 February 2014 Willem Kuys, Project Director, Capital Program, Freight Rail emailed that the 100 heavy haul coal line locomotives had been approved and a specification was required for tendering purposes. The 20E specification was to be used for a Bo-Bo (i.e. a 4 axle) locomotive with various adjustments that were detailed. The specification was required by the evening of 19 February 2014. (**Annexure 15**)
56. On 20 February 2014 Harris emailed concerning the "Updated specifications for Coal line locomotives". Attached was a letter indicating that on 19 February 2014 a meeting,

attended by Jiyane and Mdletshe, representatives of CSR and technical personnel of Freight Rail responsible for locomotive specifications, was held regarding the requirements and revised specification for an additional 100 dual voltage locomotives. (**Annexure 16**). According to the correspondence, the essence of the meeting was to discuss the design changes necessary to the 20E locomotive to make it fit for purpose for heavy haul coal line operations.

57. When I read this correspondence, I felt vindicated in respect of my earlier concerns which I had expressed to Gama and Jiyane.
58. I was concerned however that the supplier was present when discussing the “specification for tendering purposes”. It is my understanding of the procurement process that such discussions would take place after the tender / invitation had been issued.
59. As a result of the design changes, a new class was created for the 100 locomotives from CSR; Class 21E.
60. On 21 March 2014, I and colleagues in Finance received an email from Yousuf Laher with spreadsheets of the final cash flows as at 17 March 2014. I was shocked and astounded to note that the advanced payment guarantee for the CSR 100 was 30%, the design review 30%, payment on acceptance per locomotive 37% and retention 3%. This translates to a 60% upfront payment before a single locomotive is received (**Annexure 17**).
61. For comparison the upfront payment to MARS for the 110 19E Locomotives was approximately 7,8%, the advance payment to CSR for the 95 20E locomotives was 10%. The upfront payment per the 1064 business case for electric locomotives was a setup fee of R300m.



62. A sms exchange between a colleague in Finance, Natasia Machon and myself talks to this overall dilemma. On 27 February 2014 we had the following exchange of sms'.

62.1. Natasia: *"Mr C, work in a R4bn yes R4bn deposit in the current financial year in all scenarios"*

62.2. Me: *"Yes R4bn. My giddy hat. What will the auditors say."*

62.3. Natasia: *"We've asked for an opinion. These guys are cowboys."*

62.4. Me: *"I just completed the ethics survey"*

63. A consequence of the tender awards made on 17 March 2014, which included the 1064 locomotives, the 100 21E for CSR and the 60 Diesels confined to GE, was that Transnet had to pay upfront costs of R7.37 bn before the 1st of April 2014, so that the payments would be reflected in the 2013/2014 financial year (**Annexure 17**). This put an incredible strain on the organisation as this capital had to be raised in an extremely short period of time.

64. On 15 April 2014 I was asked by Laher to assist in updating a memorandum from Molefe to BADC on the increase in the Estimated Total Cost (ETC) of the acquisition of the 100 21E locomotives. The memorandum requested a recommendation by BADC to the Board for an increase in the ETC of the 100 locomotives from R3.871bn to R4.840bn. This is an increase of approximately R1bn or 25% (**Annexure 18 and 18A**).

65. My requested input was limited to updating the NPV of the of the memorandum.

66. In my view the increase was excessive and was difficult to justify. I did not pursue this with any detailed analysis at the time.

66.1. Per the Fundunzi Report to National Treasury of November 2018, paragraph 5.8.29.4., *"Transnet would have saved R1.2 billion if it procured 100*



locomotives from Mitsui at R3.188 billion than procuring from CSR at R4.4 billion."

67. Subsequent interrogation of the memorandum from Laher however raised the following question. Para 5.a of the memorandum states "*Foreign exchange rates: The rand has depreciated by 10.74 % against the Japanese Yen. This has impacted the expected price of the locomotive as per the business case and ultimately the Estimated Total Cost (ETC) as approved by the board by approximately 10.74 %.*". This is most unusual as the Japanese yen would be associated with Mitsui, a Japanese company, and not CSR, a Chinese company. Further, the cash flow spreadsheet (**Annexure 17**; worksheet CSR 100) reflects USD for CSR. From the ownership of these documents and spreadsheets, Singh and Laher should talk to this anomaly.
68. My concerns about the delay in delivery were realised when on 6 June 2014, Harris copied me on a mail he had sent to Ms Rita Roper, General Manager, Capital Projects and Kuys. The mail dealt with production delays relating to the 95 class 20E locomotives from CSR and the impact on the class 21E locomotives (**Annexure 19**). The impact referred to in the correspondence predicated a delay of 3 months or longer on the 20E locomotives with a knock-on effect on the assembly of the class 21E locomotives and the assembly and manufacture of the class 22E locomotives of the 1064 project.
69. The above concern resulted in me drafting a memorandum with input from Harris and Pillay for Roper. She would forward the memorandum to Gama who, in turn, would request Molefe that the 100 21E locomotives be imported fully assembled directly from CSR in China (**Annexure 20**). The draft memorandum was sent to Roper but was not given final effect.



70. On 24 October 2014, I received an email from Niresh Budhai from Transnet Corporate. Budhai's responsibilities, as I understand it, included providing administrative support to the various approval bodies in the Transnet Group, ensure that submissions were in the required format and met the required standard and was a liaison for communicating with DPE. Budhai requested that I review a table of risks and mitigating actions relating to the 100 21E locomotives.
71. I updated the table in consultation with technical colleagues in Freight Rail. The risks and mitigating actions largely mirrored the concerns in my email to Gama and Jiyane in January 2014 and the remedial actions incorporated in the specifications of the 21E locomotives (**Annexure 21**).
72. In December 2014 Harris copied me on the latest locomotive delivery schedule (**Annexure 22**) which indicated at the time of award of the 21E in March 2014, no 20E locomotive, on which the 21E was based, had been delivered. It would be some months before the first 20E would be delivered.

Conclusion

73. It is my considered opinion that:
- 73.1. The decision by Group and/or Supply Chain Services to arbitrarily and unilaterally change technical specifications without technical consultation when not technically proficient themselves was irresponsible in the extreme.
- 73.2. The impact of the change from MARS to CSR and the associated design changes on locomotive delivery were never discussed with technical or operations and was equally irresponsible.
- 73.3. The delays caused negated the entire raison d'être of the project.



- 73.4. The confinement to CSR was flawed in concept and execution. The motivation to use CSR based on production capacity in China and a supplier, who at the time of award, had yet to deliver a working locomotive did not meet the confinement requirements. Inter alia, these include "*when Goods or Services being procured are highly specialized and largely identical to those previously executed by the that supplier*" and further "*almost identical to previous work done*" (**Annexure 14** page 14).
- 73.5. The increase in Estimated Total Cost from R3.871bn to R4.84bn for the acquisition of the 100 locomotives was unjustified, and
- 73.6. The upfront payments amounting to 60% before the first locomotive was delivered were excessive.

Market Demand Strategy (MDS)

74. This section outlines the development of the Market Demand Strategy.
75. The acquisition of the 1064 locomotives was predicated on the MDS which in turn predicated a near doubling in General Freight volumes from a budgeted 91.2mt in 2013/14 to 180.25mt in 2019/20. An increase of just over 89mt. (**Annexure 25** - pages 72 and 73 of the final 1064 business plan)
76. Through April to September 2013, I highlighted shortcomings in the compilation of the MDS which resulted in a workshop being convened by Pillay on 19 August 2013 to validate the MDS demand and a process to produce a validated traffic demand file. These are set out in **Annexure 26 through to Annexure 35**.
77. In summary they highlighted sudden and unexplained increases in tonnages relating to coal, inconsistencies where market tonnages exceeded the capacity of the mine and inconsistencies where the ratio of coal and steel did not align,



78. A process was developed with Marketing and Pillay of Logistics Integration to derive a validated and executable MDS file.
79. While the MDS was finetuned and obvious errors were corrected, there was no substantive change in the MDS.
80. It is my belief that the pressures to achieve the MDS targets, and the significant consequences of changing the MDS made any attempt to question the MDS unlikely to succeed.

1064 Locomotives

81. In this section I will:
- 81.1. Outline the development of the 1064 business case and the role of McKinsey.
 - 81.2. Show that hedging and escalation were included in the business case.
 - 81.3. Show that the accelerated locomotive delivery was, in my opinion, ill-considered.
 - 81.4. Show that the advance payments had a negative impact on Transnet finances.
82. The process used to evaluate the 1064 locomotive bids will be a section in its own right.

Development of the 1064 Business Case

83. The first 1064 locomotive business case was developed from the work on the Market Demand Strategy and Locomotive Fleet Plan outlined in para 21 and 22. It was predicated on the Market Demand Strategy and the near doubling of General Freight Volumes over a seven year period and the replacement of aged locomotives that were



beyond their economic life. The business case (**Annexure 36**) was presented to Transnet Freight Rail Investment Committee (TFRIC) on 9 March 2012 with an ETC of R38 146 million. Various amendments were requested.

84. On 19 March 2012 Gama presented an updated version to the Capital Investment Committee (CAPIC) (**Annexure 37**).
85. At the CAPIC meeting of 21 May 2012 it was decided, inter alia, that an external party should review the 1064 business case and provide a risk assessment. A timetable was also outlined which envisaged the contracts being signed in January 2013 (**Annexure 38**).
86. This was followed by a hiatus in the locomotive procurement as Freight Rail developed an overall wagon fleet and infrastructure plan to complement the locomotive fleet plan (**Annexure 39**).
87. I believe the interaction with McKinsey on the 1064 business case started 1 March 2013. I do not believe that I saw a formal clarification of their role but understood they were engaged to lead the further development of the 1064 business case.
88. A Freight Rail locomotive team was formed under Thembi Lekganyane, Executive Manager: Operations Development and Performance, MIS & Continuous Improvement
89. The core team of Pillay, Bouwer and myself had a sometimes-strained relationship with McKinsey. **Annexures 40 and 41** (drafted but omitted to send) indicates the team's, and my, frustration that McKinsey were uninformed as to railways and their operations, had not interpreted the context of the business case, were not familiar with CSDP requirements and stressing that they (McKinsey) answer the questions posed by DPE and the Board.



90. A series of emails reflects McKinsey's change to the original business case concept by extending the locomotive delivery by 2 years beyond the original 7 years (**Annexure 42**). This was readjusted back to 2019 from 2020.
91. On Friday 12 April 2013, the team was asked to turn the business case around for the Locomotive Steering Committee and the Transnet Board by Sunday evening. We were working late and under pressure at McKinsey's office and they were just not understanding what we had to achieve. I vented my frustration which my colleagues captured in **Annexure 43**. Humorous in hindsight, it was deadly serious at the time.
92. Illustrating this frustration is that on 16 April 2013 we received a version of the business case for updating via tracked changes. (20130416 1200 – 1064 Locomotive Business Case.docx). The first and fifth pages are appended as **Annexure 44**. "The Purpose" per page 5 indicated that the first purpose of the project was to create 28 000 new direct and indirect jobs and R50 billion in economic impact thorough supplier development. This completely misses the point of the business case which was to present a sound argument for procuring locomotives. One of my issues (per **Annexure 41**) was that *"McKinsey write up and present the executive summary first so that there can be alignment on the thrust and arguments of the business case"*.
93. Pillay, Bouwer and I extensively revised the document, returning it the evening of 16 April 2014 copying Gama and Singh in our reply. (**Annexure 45**)
94. On the afternoon of 17 April 2013, Pillay, Bouwer and I sat with Singh and McKinsey to review previous inputs on a page by page basis. All were accepted and we could agree on those we left out. We could not agree with Singh on the inclusion of the TE section setting out the role of TE and left that for Singh and Gama to resolve. (**Annexure 46**)
95. On the morning of 18 April 2013, the version as at the evening of 17 April was widely circulated by Lekganyane and I as input to the 1064 Locomotive Steering Committee



that was to start at 10:00. "The Purpose" per page 5 was silent on the project ETC
(Annexure 47).

96. Control of the final word document was now fully in the hands of Group.
97. The Locomotive Business Case was discussed at the Locomotive Steering Committee meeting on 18 April 2013 with Singh as the Acting Chair.

Hedging and escalation

98. One of the contentious issues that has arisen is whether the 1064 business case and by extension, the financial model, included hedging and escalation.
99. I will show that hedging and escalation were included in the development of the business case and the financial model but this was misrepresented in the final business case. While this has been covered in the MNS report of 14 August 2018³ and the Fundudzi report of November 2018⁴, I will present additional supplementary detail.
100. I was shocked rigid when interviewed by Werksmans Attorneys as part of their investigation into the procurement of the 1064 locomotives. The first matter was to show me a 25 April 2014 version of the business case stating that the R38.6bn excluded the potential effects from hedging, forex escalation and other price escalations, and interrogate me if I knew anything about it.
101. I replied that I was of the firm conviction that the business case included forex hedging, forex escalation and other price escalations and subsequently interrogated my records.
102. In April McKinsey finalised their own financial model. One of the core inputs was from a series of emails from around 10 April to 12 April 2013. Recipients initially were

³ MNS Report Volume I, 14 August 2018. Para 5.11.4 page 120

⁴ Fundudzi Report November 2018. Para 1.3.8 through 1.3.13

McKinsey and the core team but later Gama and Singh (**Annexure 42**). Pertinent points from these emails include:

- 102.1. Price/forex estimates were sourced from Expert interviews.
 - 102.2. Base locomotive prices as at 2013/14 were USD 2.6m for diesel and USD 3.5m for electric locomotives.
 - 102.3. The contract signing fee was assumed at R250m for diesels and R300m for electric locomotives.
 - 102.4. Hedging costs were assumed to be 8% of the locomotive cash flow.
 - 102.5. Naseem Salojee from McKinsey instructs the Nischal Baijnath to put these assumptions into the financial model. I was party to vetting the financial model and this was done and the ETC included hedging and escalation.
103. On 18 April at 12:40 Fabio Pedrazzi from McKinsey distributed the PowerPoint presentation "20120418 Procurement of 1064 locomotives for the General Freight Business - FINAL.pptx".

- 103.1. Slide 12 of the final presentation, extracted below, clearly indicates that escalation and hedging were included in the Estimated Total Cost.

4 The NPV of the 1064 locomotives transaction is R2.7bn (hurdle rate) and R34.1bn (WACC)

TRANSNET

Base case assumptions

Fleet strategy	<ul style="list-style-type: none"> Increased operational efficiencies from new locomotives called for in TFR Fleet Plan will be achieved Run-out optimised for current refurbishment state, by loco class
Volume	<ul style="list-style-type: none"> Delivery on MDS targets, with volumes increasing from 91mt in 2013/14 to 170mt in 2018/19
Delivery schedule	<ul style="list-style-type: none"> Delivery schedule called for in the diesel and electric RFPs can be met (e.g., calls for first 100 diesels in 2013/14 and first 65 electrics in 2014/15) All 1064 locomotives procured by 2019
Forex	<ul style="list-style-type: none"> Current forward ZAR/USD exchange rates at average of 11.0 over the acquisition period
Price	<ul style="list-style-type: none"> USD 2.6 million/R25.2 million per diesel and USD3.5 million / R33.9 million per electric, assuming 50% localisation and a 2% localisation premium. RSA component escalated with inflation. USD component escalated at US inflation and converted back to ZAR based on forward exchange rate
Tariffs	<ul style="list-style-type: none"> Tariffs as per MDS commitments (escalation ~7% per year from 0.42 R/tonKm in 2013/14 to 0.58 R/tonKm in 2018/19)

Capex: R38.6bn aligned to corporate plan¹
NPV: R2.7bn²

1. Escalated capex for the acquisition of 1064 locomotives in 2013/14 - 2018/19
2. Calculated using hurdle rate of 18.56%, NPV would be R34.1bn if TFR's WACC of 12.56% is used

PAGE

- 103.2. Slide 27 of the final presentation however had been changed from the previous version with the addition of “excluding the potential effects from forex hedging, forex escalation and other price escalations”.

9 Recommendation: the 1064 locomotives acquisition for approval by the Board of Directors

TRANSNET

There is a business need for the purchase of 1064 new locomotives for Transnet and South Africa	<input checked="" type="checkbox"/>
The risks are comprehensively identified and appropriately mitigated	<input checked="" type="checkbox"/>
The business will be operationally ready to execute	<input checked="" type="checkbox"/>

BADC recommends the following to the BoD for approval: ☐

1. The acquisition of 1064 locomotives for the General Freight Business
2. ETC for the acquisition is estimated at R38.6bn as per the corporate plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)

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104. Also, on 18 April, Pedrazzi emails Singh the business case “20120418 1064

Locomotives Business Case_FINAL.pdf “(**Annexure 48**) with, inter alia, the comments:

“....final version for BADC with updated numbers (now R2.7bn NPV vs. R0.3bn), including:

- 1. New FX curve based on Treasury's input*
- 2. Adjusted fleet estimates to add up to 1064, as per JD's input today*
- 3. Updated CO2 savings based on only diesel (changed from today's back of the envelope of R13m to R5m bottom up, accounting for updated fleetplan)*
- 4. Updated TCO as a result of the forex change*
- 5. New funding and forex hedging section, received from Dani this evening”*

105. Singh was the Acting Chair of the 1064 Locomotives Steering Committee meeting held on the morning of 18 April. The draft minutes include that the Acting Chairman highlighted, inter alia, the following: (**Annexure 49 and 49A**)

105.1. *“The GCE has confirmed that he has worked through the document sent to him on 17 April 2013 and he is satisfied with the document.*

105.2. *-The differences between the document submitted on 17 April and 18 April 2013, include inter alia:*

105.3. *(i) Significant amendment: The forex rates included in the model previously were high. The forex rates have now been amended downwards, which creates a NPV on the business case at hurdle rate of R2.7 billion. Accordingly, the R0.3 billion NPV at hurdle rate in the previous versions of the document has been amended to R2.7 billion. Consequently the business case is more robust.”*



105.4. The MNS Report Volume 1 records that the minutes of the 18 April 2014 Locomotive Steering Committee Meeting were signed in September 2014.⁵

106. The resolution of the meeting however states:

106.1. *"The Steering Committee **RESOLVED** that it recommends that the Group Executive Committee approves:*

- *The acquisition of 1064 locomotives for the General Freight Business.*
- *Estimated total costs of the acquisition of R38.6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation, other price escalations and borrowing costs)."*

107. I received the draft minutes on 25 April 2013. I do not recall acting on them till extensively researching the business case history and contradiction as to whether forex hedging and escalation were included or not.

108. I cannot explain the above contradiction in the draft minutes.

109. I interpret from the e-mail from McKinsey dated 24 April 2013 that they were party to the presentation to BADC on 23 April and BADC requested a few minor updates.

(Annexure 50)

110. On 29 April 2013 Budhai circulates "20130429 1064 1500 Locomotive Business Case_NoAnx_Board.pdf" for review and comment. The business case has been updated as per the input from BADC on 23 April (**Annexures 51 and 51A**). The Purpose as set on page 4 still reads "... Accordingly it is recommended that the 1064 Locomotives Business Case be approved at a cost of R38.6 billion excluding borrowing costs"

⁵ MNS Report Volume 1 14 August 2018, para 4.3.14, page 75.



111. On 30 April 2013 Budhai emails the file “20130430 1064 0900 Locomotives Business Case_NoAnx.pdf”.

111.1. The cover page dated 25 April 2017 indicates it is the Final Version to the Board of Directors. The Purpose per page 4 reads: “.....Accordingly, it is recommended that the 1064 Locomotives Business Case be approved with estimated total costs of the acquisition of R38.6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations).” (**Annexure 52**)

111.2. The metadata for this file indicates it was last modified on the machine of Yusuf Mahomed, Office of The Group Chief Financial Officer, Transnet on 30 April 2014 at 10:31. The total editing time was four minutes (**Annexure 53**).

112. This file was widely circulated as the final version and this amendment has caused considerable confusion.

113. McKinsey and Group had control of the final versions of the Business Case and PowerPoint presentations.

114. Given the extensive communication and response to hedging and forex issues in the formative stages of the final business case, together with the partial editing of the PowerPoint presentation and business case it is my considered opinion that the altering of the final business case and PowerPoint presentation with the phrase “excluding potential effects from forex hedging, forex escalation, and other price escalations” was a deliberate misrepresentation.

115. The Transnet Board approved version is, however, used as a point of reference and is included as **Annexure 54**. It is further referred to as the final 1064 business plan or simply the business plan where the context allows.



Accelerated Locomotive Delivery

116. The accelerated delivery contracted for the 1064 locomotives did not, in my opinion, make operational or commercial sense and was, in my opinion, ill-considered, as it:

116.1. Was contrary to operational advice from TFR

116.2. Beyond Transnet Engineering's scope to deliver

116.3. Contrary to the procurement strategy of the business case

117. The 1064 business plan (**Annexure 54**) discusses locomotive delivery in in some detail. Key points include:

117.1. Delivery is posited over seven years ending 2018/19 at a maximum rate of 230 locomotives per month (page 48).

117.2. Delivery risks and whether the posited timeframes are achievable (page 49).

117.3. Highlighting the significant locomotive shortfall that Freight Rail would experience against the business plan assumptions and the associated loss of volumes(tons) and revenue.

Operational advice against accelerated delivery

118. Early February 2014 Singh requested Freight Rail's response to an aggressive delivery schedule for the 1064 locomotives. Pillay, Roper and I with other technical input prepared a report "TFR PELIMINARY VIEW ON EXPEDITING 1064 LOCOMOTIVES" for Gama's consideration (**Annexure 56**) on . The accelerated delivery was 300 locomotives per year. The aspects covered, together with pertinent comments, were:

118.1. Strategy: Fast park old locomotives with a caveat on the organizational recognition of the technical nature of the work.

- 118.2. Market: The market supported the additional tonnages.
- 118.3. Wagons: The wagon plan could be adjusted accordingly.
- 118.4. Linkage to Major Projects: Several major projects were affected and there would have to be an adjustment in the capital cash flows to fast track certain projects to achieve the aggressive tonnages per the time lines stipulated.
- 118.5. Delivery: TE's delivery promise for an aggressive start-up was April 2015. It was Freight Rail's view this could be between 3 months to over a year later depending on whether it was diesel or electric locomotives and a known or unknown supplier. The critical point was that TE's start-up of the local manufacture of previous contracts had not been visibly managed as a project under a dedicated and accountable programme manager according to a visible and communicated project plan. This is the cause of the delays experienced.
- 118.6. Commissioning: The bottleneck of available team's type testing and limited test facilities was spelt out. There was insufficient skilled staff.
- 118.7. Operations: Freight Rail would review its crew requirements with an aggressive intake in the 2014/15 financial year.
- 118.8. Maintenance: Current major maintenance interventions would be adjusted or curtailed. It was also put forward that all control of locomotives be moved to Logistics Integration to consolidate control, introduce proactive planning, technical monitoring and develop and enforce key performance indicators.
- 118.9. Risk Management: The risks identified in the 1064 business plan were extracted and appropriate actions identified.
119. On 12 February 2014 the document was sent to Gama, Singh and Roper.



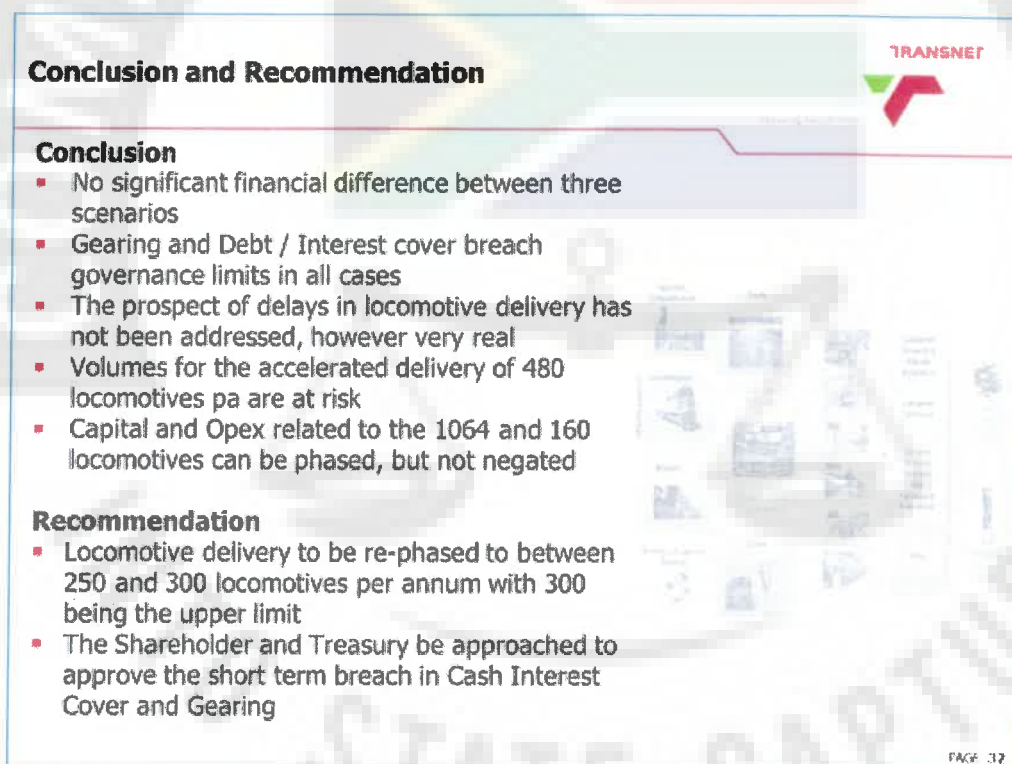
120. On 26 February, when responding to Singh on various scenarios, I explicitly stated that we (Freight Rail) could not absorb more than 300 (locomotives) per year due to market and commissioning constraints (**Annexure 57**).
121. The mail of 28 February 2014 from a technical colleague indicates the extensive impact of the accelerated delivery on the current locomotive maintenance programs. Many would have to be stopped or severely curtailed (**Annexure 55**).
122. The above notwithstanding Pillay and I were requested to present a view "UPDATED FOR AGGRESSIVE DELIVERY OF 480 PEAK PER YEAR". It followed the same format as the previous report but it was more detailed in the links to major projects. Most of the projects had to be completed within two years with the caveat that not all the projects were fully funded. There was added emphasis to the risks in the Delivery and Commissioning sections. The report was sent to Gama for input on 6 March 2014 before onward transmission to Singh.
123. Gama responded on 10 March 2013 allocating specific responsibilities to various projects. He stressed that we had under-emphasised the TE risk and should update the report before sending to the GCFO.
124. On 11 March 2014 I sent the updated report to inter alia, Gama and Singh, with the covering note that the very aggressive delivery poses an overall risk as it requires very tight simultaneous coordination of markets, customer capacity, material supply, developing infrastructure capacity and wagons (**Annexure 58**).
125. An upshot of our report was an extensive workshop on 27 May 2014 and the allocation task and responsibilities to address the de facto situation. The agenda and tasks virtually mirrored that of the report (**Annexure 59**).
126. By July 2014 Strategy and Business Planning had taken over coordinating all the responses and actions emanating from the 27 May workshop. Loosely using the



framework of the report, Strategy and Business planning proceeded to use the responses and actions as the basis for the first iteration of the 2015/16 business plan.

(Annexure 60)

127. On 10 July Strategy and Business Planning were ready to share a presentation on accelerated locomotive delivery plan with Gama (**Annexure 61**).
128. On 16 July 2014, for the presentation by Strategy and Business Planning to Transnet Group Exco, (**Annexure 62**), I sent the following concluding slide. An addition by Pillay that *"In order to ensure that there is a reliable system it is required that Rail Network makes the required investment in line with how the locomotives are deployed into the TFR system"* was unfortunately too late to make it into the final presentation pack



Conclusion and Recommendation

TRANSNET

Conclusion

- No significant financial difference between three scenarios
- Gearing and Debt / Interest cover breach governance limits in all cases
- The prospect of delays in locomotive delivery has not been addressed, however very real
- Volumes for the accelerated delivery of 480 locomotives pa are at risk
- Capital and Opex related to the 1064 and 160 locomotives can be phased, but not negated

Recommendation

- Locomotive delivery to be re-phased to between 250 and 300 locomotives per annum with 300 being the upper limit
- The Shareholder and Treasury be approached to approve the short term breach in Cash Interest Cover and Gearing

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129. The pressures on the accelerated delivery program were intense. On 30 Oct 2014, I received the following sms from Gama. *"I don't change my mind daily, .. You and JD agreed to 480 max a few months ago, make it work"*. I do not recall the exact



circumstances that gave rise to the sms but it was symptomatic of the pressure at the time. It is possible that it related to the recommendation above.

Transnet Engineering (TE) Preparedness

130. TE was, I believe, ill-equipped to handle the accelerated locomotive delivery.
131. In February 2014 Pillay and I accompanied Singh and others to meetings with PWC to discuss TE's preparedness to manufacture / assemble locomotives. It is my recollection that we fully appraised them of our concerns based on TE's late delivery of the 95 20E locomotives, the time it took to get the GE assembly line up and running and, in our view, the structural and cultural deficiencies in TE to rapidly transform into a world class manufacturing and assembly facility.
132. PWC prepared a report that is extensive and detailed. It also highlights significant risks in TE's capability. **Annexure 62A** is but one slide setting out the risk of attempting to compress the delivery schedules.
133. These concerns are also expressed in the reports on "TFR PRELIMINARY VIEW ON EXPEDITING 1064 LOCOMOTIVES" (**Annexure 56**) and "UPDATED FOR AGGRESSIVE DELIVERY OF 480 PEAK PER YEAR" (**Annexure 58**).
134. The detailed concerns of Harris and his team as set out in his email of 6 June 2014 give expression to this concern. They speak to the preparedness of TE, the delays in the production of the 20E and the knock-on effect to the 21E and ultimately the 1064 (**Annexure 19**).
135. It is regrettably common cause that many of the 1064 locomotive deliveries are running late. In a media report on 4 December 2018, the Chairman of the Transnet Board reported to Parliament that only 497 of the 1,064 locomotives had been delivered so



far, when in terms of the delivery schedule all of them should have been delivered by now.⁶

Procurement Strategy

136. The locomotive Business Plan highlighted various risks and the need to ***adjust the rate of delivery*** in line with the risk as it materialises. This was captured in the phrase “programmatic procurement” which is used consistently throughout the various iterations of the business cases.
137. Page 8 (**Annexure 52**) of the final business case discusses at length managing the risks of volume volatility given the volatility in the global and domestic economy. *“If volumes grow faster or, vice versa, slower than the MDS plan, Transnet must adjust its locomotive procurement accordingly. This flexibility needs to be built into its procurement and contracting strategy to enable it to accelerate or throttle back the pace of locomotive purchases without penalties.*
138. In the RFP this “programmatic procurement” was translated to break point pricing for different batch sizes which is not the same thing as programmatic procurement. Batch size refers to changing the size of the order and break point pricing indicates the different prices for different batch sizes. This does not talk to or allow the flexibility to accelerate or throttle back the pace of locomotive purchases without penalties.
139. The accelerated delivery of the locomotives negated all the protection that was envisaged in the business case, and the limited protection provided in the RFP, against MDS volumes not materialising.
140. It is a pity that the worst-case volume shortfall identified in the business case is exactly what Freight Rail experienced. This occurred without the benefit of a flexible

⁶ <https://www.businesslive.co.za/bd/national/2018-12-04-major-litigation-on-transnet-locomotive-contracts-in-the-offing/> Retrieved 23 April 2019.

procurement and contracting strategy that allowed locomotive purchases to be accelerated or throttled back without undue penalties.

Advance Payments

141. It is my considered opinion that the contracted payment schedules negatively and unnecessarily impacted Transnet.
142. The 1064 business case posited upfront payments on signing the contracts of R250m for the diesel locomotives and R300m for the electric locomotives. (**Annexure 52** para 4.3.2 page 37)
143. These upfront payments of R300m and R250m respectively were incorporated into the financial model.
144. The following table of the payment terms per the bid documents for the electric locomotives is extracted from the 10 December 2013 Report of the Cross Functional Evaluation Team (CFET) (Finance) (**Annexure 83**). Bidder 1 is Bombardier and Bidder 2 is CSR.

	Bidder 1	Bidder 2	Bidder 3	Bidder 5	Bidder 7
Deposit on effective date	8%	1.62%	1.62%	1.62%	1.62%
Milestone 2	8%		9.00%		
Milestone 3	8%		3.00%	0.00%	
Milestone 4			3.00%		
Milestone 5			5.00%		
Milestone 6			3.00%		
Total payments before acceptance	24.00%	1.62%	24.62%	1.62%	1.62%
On at locomotive acceptance	66%	88.38%	65.38%	98.38%	98.38%
Retention	10%	10.00%	10.00%	0.00%	-
Total	100.00%	100.00%	100.00%	100.00%	100.00%

145. The following table of the payment terms per the bid documents for the diesel locomotives is extracted from the 10 December 2013 Report of the Cross Functional Evaluation Team (CFET) (Finance) (**Annexure 84**). Bidder 1 is CNR and Bidder 4 is General Electric.

	Bidder1	Bidder2	Bidder3	Bidder4
Deposit	1.08%	1.43%	25.00%	10.00%
Acceptance	88.92%	88.57%	75.00%	87.00%
Retention	10.00%	10.00%	0.00%	3.00%
Total	100.00%	100.00%	100.00%	100.00%

146. The above tables show that deposit or “Advance Payment Guarantees” (APG) of the order of 1% to 2% are not uncommon.

147. The table below is compiled from **Annexure 17**.

	Bombardier	CSR	GE	CNR	CSR 100	GE 60
APG / Deposit	9%	10%	10%	10%	30%	70%
Design Review	9%	20%		5%	30%	
6 Months	9%					
Total Advance Payment	27%	30%	10%	15%	60%	70%
Acceptance	68%	65%	87%	75%	37%	27%
Retention	5%	5%	3%	10%	3%	3%

148. From the above table the advance payments before a locomotive is delivered for all bidders increased from their initial bids. Bombardier was a slight increase from a high base and CSR having the highest increase followed by CNR and then GE.
149. The increases beg the question as to how the final negotiations were conducted.

150. I recall being told but cannot confirm that the reason given for the 70% upfront payment for the GE 60 locomotives was to purchase the material to continue the current production run of Class 43 diesels. There were no design, prototype, testing or setup costs involved.
151. As previously mentioned, a consequence of agreed advance payments was that, on contract initiation on 17 March 2014, Transnet had to pay an upfront advance payment of R7.37 bn before the 1st of April 2014. This was so that the payments would be reflected in the 2013/2014 financial year.
152. One of the consequences of the payment schedule was that Transnet had to increase its foreign borrowings. (**Annexure 63 and 63A**). While my response may not be considered definitive in that it still had to be tweaked with the revised locomotive run out schedule, the magnitude of the funding increase is undeniable being of the order of R6 billion in 2014/15. Borrowing limits also spike in 2017/18 and 2018/19 by some R8 billion and R6 billion respectively.

The 1064 Locomotive Evaluation Process

153. The procurement of the 1064 locomotives can be divided into two phases:
- 153.1. The first phase covers the bid process, the receipt of the bids and the evaluation process up to and including selecting the final suppliers.
- 153.1.1. This section deals with this phase.
- 153.2. The second phase covers the negotiations with the selected suppliers (also referred to as OEM's - Original Equipment Manufacturers) resulting in the final contracted price/s.
- 153.2.1. This phase will be covered in the section "January 2018 Price Validation".



154. I believe that the 1064 evaluation process was administratively flawed. The MNS report into the 1064 locomotives Volume 1, 14 August 2018” in the Executive Summary concludes that *“The results of all of the above (except the price increases) renders the procurement of the 1064 locomotives susceptible to judicial review for failure to adhere tot the applicable legal framework”*⁷

155. I will complement the above finding with detail not covered in the MNS report. In this section I will draw on material to which I have had access though my work with MNS and material made available through the Zondo Commission and documents in the public domain.

156. I will cover the following to support my contention that the evaluation process was administratively flawed:

156.1. Prescribing the role of TE as a subcontractor when it is was not supported by documentation.

156.2. Using the prescription of TE as a mechanism to adjust the price for evaluation.

156.3. Inconsistently applying the prescription of TE across the bidders.

156.4. As a consequence of the above the BAFO prices presented to the 1064 Locomotive Steering Committee were not a true reflection of the real cost.

157. For background and context to what follows, the following timeline and documents are relevant.

157.1. 16 July 2012 - RFP Part 1 issued

157.2. 11 December 2012 - RFP part 2 issued

⁷ Report on the investigation into allegations of irregularities in the procurement and award of the 1064 locomotives tender by Transnet. Volume 1, 14 August 2018.

157.3. 30 April 2013 - Bids closed

157.4. 3 September 2013 - PFMA approval.

157.5. 2 December 2013 - Clarify "Rand impact of TE" to selected bidders.

Clarification closes 4 December 2013.

157.6. 12 December 2013 - Reports of the cross functional evaluation team (Finance)

157.7. 20 December 2013 - Request breakdown and explanation of Annexure E costs in the RFP. Closing date 23 December 2013.

157.8. 4 January 2014 - Request Best and Final Offers (BAFO) with closing date of 10 January 2014.

157.9. 15 January 2014 - Memorandum from the (CFET) (Finance) to the 1064 Locomotive Steering Committee.

157.10. January 2018 – Analysis performed for Transnet Freight Rail on the ETC increase from R38.6bn to R49.55bn.

158. Documents frequently referred to include:

158.1. The 10 December 2013 report of the Cross Functional Evaluation Team (CFET) (Finance) on the Locomotive tender evaluation for the supply of 599 electric locomotives for the General Freight Business (**Annexure 83**).

158.2. The companion report also dated 10 December 2013 on Locomotive tender evaluation for the supply of 465 new diesel locomotives for the General Freight Business (**Annexure 84**).

158.2.1. These two reports were made available to me by the Zondo Commission and through my work with MNS.

158.3. The 15 January 2013 Memorandum from the CFET (Finance) to the 1064 Locomotive Steering Committee under the subject “599 Electric Locomotives – Results of ‘Best and Final Offer’ Responses” (**Annexures 65 and 65A**).

158.3.1. For legibility, **Annexure 65A** is directly from the original excel file.

158.4. The 15 January 2013 Memorandum from the CFET (Finance) to the 1064 Locomotive Steering Committee under the subject “459 diesel locomotives – Results of ‘Best and Final Offer’ Responses” (**Annexure 66 and 66A**).

158.4.1. For legibility, **Annexure 66A** is directly from the original excel file.

158.5. The excel file “Negotiations Electrics 17 Mar 14.xlsx”.

158.6. The excel File “Negotiations Diesels 17 Mar 14.xlsx”.

159. The two files of excel spreadsheets referred to above are crucial to an understanding of the development of the final locomotive pricing

159.1. The relevant worksheets extracted from these files are attached as **Annexures 67** through to **Annexure 72** for the electric locomotives and **Annexure 73** through to **Annexure 77** for the diesel locomotives.

159.2. The annexures cover the worksheets including Base cost, Base cost (Fixed price), Base cost (excluding options), Base cost (excluding TE), Negotiations and Media 17 March. A “Reconciliation” worksheet is also included.

159.3. The relevance of these files is that they provide a timeline view of prices of all bidders from tendering through to the final award. They correlate with:



159.3.1. The 10 December reports from the CFET (Finance) on the electric and Diesel locomotives

159.3.2. The 15 January 2014 memoranda on electric and diesel locomotives from the CFET (Finance) to the 1064 Locomotive Steering Committee and

159.3.3. They correlate with the final award prices.

160. The files also contain evidence of:

160.1. Reverse engineering of amounts

160.2. Unexplained variations in foreign content and

160.3. Evidence of negotiations with electric locomotives priced around R60m each.

Prescribing the Role of TE as a Subcontractor

161. Transnet Engineering (TE), as it was then called, is an operating division of Transnet.

162. The accounting of TE as a subcontractor was problematic and, in my opinion, contributed to a potentially flawed evaluation process.

163. The Request for Proposal (RFP) for the supply of 465 new diesel locomotives Part 2 states under para 2 TRE SUB-CONTRACTING that: *"Participation of TRE in this locomotive procurement process will be prescribed and further details will follow after the issuance of Part 2 of RFP."* (Annexure 81).

163.1. The wording in the RFP Part 2 for the supply of 599 new electric locomotives is identical.

163.2. No record has been found that the "further details" referred to were ever issued and formed part of the RFP, either for electric or diesel locomotives.



163.3. In the absence of the “further details”, the participation of TE in the locomotive procurement process cannot be considered prescribed.

164. The PFMA approval letter from the Honourable Minister dated 3 August 2013 talks to the “critical role of Transnet Engineering in developing strategic and industrial capabilities relevant to the rail supply chain.” The letter grants approval for the procurement of the 1064 locomotives subject to, inter alia, the following condition: “A clear statement by Transnet with regard to TE’s vision in the locomotive supply chain and what capabilities will need to be developed to make this vision a reality”.

(Annexure 82)

164.1. The PFMA approval was received after the bids had closed so could not reasonably be prescription to the bid process.

164.2. The PFMA approval does not prescribe that TE will be a subcontractor.

165. If the above argument is valid, which I believe it is, then it was incorrect to incorporate the use of TE or otherwise in the bid evaluation process.

165.1. If the use of TE was to be prescribed, then the details should have been provided timeously before the closing date of the tender or the tender should have been re-issued.

Using the prescription of TE as a mechanism to adjust the price for evaluation.

TE Pricing methodology

166. The 10 December reports from the CFET (Finance) covers the use of TE as a main subcontractor in detail. **(Annexure 83 and Annexure 84).**

166.1. Under the heading "Using TE as a main subcontractor", it states, inter alia that: *"The RFP part 2 dictates as follows "participation of TRE in this locomotive procurement process will be prescribed"*.

167. The statement was not qualified and under the same heading of "Using TE as a main subcontractor" on page 12 reads:

- *"SCS in conjunction with the TFR CE and Transnet GCE and GCFO decided that clarity should only be obtained from those bidders who included TE as a main subcontractor. The clarity request was to establish what proportion of the bidder's price related to the use of TE;*
- *Accordingly the methodology provided to the CFET (Finance) was that all bidders should be evaluated excluding the use of TE as a main subcontractor in order to normalise the base on which to evaluate price;"*

168. In both reports referred to above, under the heading "Matters for Approval of the Steering Committee", the CFET (Finance request, inter alia, *"Approval of the price methodology provided to the CFET (Finance) for evaluation purposes to include the impact on price."*

168.1. I do not know if the Locomotive Steering Committee approved the price methodology.

168.2. From the wording of the report, it is reasonable to conclude that the CFET (Finance) were directed in the pricing methodology.

168.3. I believe this direction to CFET was wrong, according to my reasoning, that the role of TE was not prescribed.

Application of the TE pricing methodology

169. I would first address the “normalization” of the 599 electric locomotives.

169.1. Page 12 of **Annexure 83** describes how Freight Rail Supply Chain Services “normalised” the bid price between those bidders who used TE as a subcontractor and those who did not use TE as a subcontractor.

169.2. This “normalisation” resulted in three bidders who used TE as a subcontractor being asked to specify, without apparent qualification, the amount they would save by not using TE as main subcontractor.

169.3. Page 13 describes the confusion pertaining to Bidder 2’s (i.e. CSR) use TE and whether the amount was R 3 480 000 or R 5 490 000.

169.4. Page 13 further describes a telephonic conversation with Bidder 2 on the evening of 4 December 2013. This resulted in the R 2 010 000 difference between R 5 490 000 and R 3 480 000 being declared a “discount”.

169.5. Supply Chain Services, based on discussion with the Group Chief Executive and the Group Chief Financial Officer advise the CFET (Finance) that the evaluation should proceed excluding this potential “discount”.

169.5.1. The R 2 010 000 “discount” per para 169.5 was later taken into account in the memorandum to the Locomotive Steering Committee of 15 January 2014 (**Annexure 65**) following a request on 4 January 2014 for Best and Final Offers.

169.6. Page 13 states that the impact of excluding TE from the normalized base price as follows:

Bidder 1	Bidder 2	Bidder 3	Bidder 4	Bidder 5	Bidder 6	Bidder 7
-1 905 514	-3 480 000	0	n/a	0	n/a	0

169.7. Page 40 shows the “Price used for evaluation” excluded the use of TE as the main subcontractor. The “Price used for evaluation” was used in the BAFO evaluations.

169.7.1. The TE component subtracted above was later added back to the determination of final price. This is shown in page 2 of **Annexure 70**.

169.8. Still on page 40, comparing lines “Sub Total 3 (total price before TE adjustment)” with “Price used for evaluation” shows how the “impact of not using TE as the main sub-contractor” favours bidders 1 (Bombardier) and 2 (CSR).

170. The application of the TE pricing methodology for the 465 diesels followed a similar pattern. Pages 12 and 13 of **Annexure 84** refer. The impact of excluding TE from the normalised price is shown below.

Bidder 1	Bidder 2	Bidder 3	Bidder 4
n/a	-1 530 190	-1 640 000	-1 046 060

170.1. The outcome of the impact of TE pricing is shown on page 37 of **Annexure 84**.

170.2. The notable exclusion of bidder 1 will be covered later.

170.3. Unlike the electric locomotives, the impact of TE pricing is not added back in the determination of the final price for the diesel locomotives.

Observations on the impact of TE pricing on the electric locomotives

171. Per page 23 of **Annexure 83**, bidders who did not quote using TE as a main subcontractor were not approached for clarity. It is further commented that *“If clarity was obtained from these two bidders Then the impact on the evaluation scoring result could be significant”*
172. Examining pages 40 of **Annexure 84** and 37 of **Annexure 83** show that impact of not using TE as the main subcontract has a significant impact on the price used for evaluation.
- 172.1. The impact of TE pricing significantly favours bidders 1 (Bombardier) and 2 (CSR) for the 599 electric locomotives; which bidders were awarded the contracts.
173. An alternative view is that the impact of TE pricing is the premium Transnet Freight Rail was prepared to pay for ensuring TE was used as main subcontractor.
- 173.1. No such stipulation was made in the bid documents.
174. If it is accepted that the role of TE was not in fact prescribed, then applying the impact of TE pricing, unfairly favoured bidders 1 (Bombardier) and 2 (CSR).

Correlation

175. From Page 40 of **Annexure 83** on the electric locomotives:
- 175.1. The “Price used for evaluation” correlates with the respective bidder’s “Previous Evaluated Price” in the 15 January 2014 599 Electric Locomotives memorandum from the CFET (Finance) to the 1064 Locomotive Steering Committee (**Annexure 65**).

175.2. "Sub Total 3 (Total price before TE adjustment)" correlates with the respective bidder's "Capital Acquisition cost excluding forex and escalations rebaselined to 11 November 2013 rates and options re-aligned" in the Base cost worksheet **Annexure 67**.

176. From page 37 of **Annexure 84** on the diesel locomotives correlates:

176.1. The "Price used for evaluation" correlates with the respective bidder's "Previous Evaluated Price" in the 15 January 2014 465 Diesel Locomotives memorandum from the CFET (Finance) to the 1064 Locomotive Steering Committee (**Annexure 66**).

176.2. "Sub Total 3 -Total price before TE adjustment" correlates with the respective bidder's "Capital Acquisition cost excluding forex and escalations rebaselined to 11 November 2013 rates and options re-aligned" in the Base cost worksheet **Annexure 73**.

Inconsistently applying the prescription of TE across the diesel bidders.

177. I commented earlier on bidder 1 for the diesel locomotives not being subject to the impact of TE pricing.

177.1. I will show why I believe this to be an inconsistent application of the prescription across the bidders.

178. Page 12 of **Annexure 84**, the 10 December 2013 report of the Cross Functional Evaluation Team on the Locomotive tender evaluation for the supply of 465 new diesel locomotives under the heading "Using TE as a main subcontractor", inter alia states:

- *"SCS however advised CFET (Finance) that the Supplier Development files submitted by bidders indicated that Bidder 1 did not specify the use of TE as the main subcontractor and that this could have a potential price adjustment*



*implication. SCS also mentioned that bidders were likely to make different assumptions in the use of TE as a main subcontractor including the percentage that would be subcontracted. **These assumptions which were not specified by TFR in the RFP process could differ significantly between bidders.***

Accordingly SCS subsequently decided to obtain clarity from bidders on this matter; (My Bold)

- *SCS in conjunction with the TFR CE and Transnet GCE and GCFO decided that clarity should only be obtained from those bidders who included TE as a main subcontractor. The clarity request was to establish what proportion of the bidder's price related to the use of TE;*
- *Accordingly the methodology provided to the CFET (Finance) was that all bidders should be evaluated excluding the use of TE as a main subcontractor in order to normalise the base on which to evaluate price;*
- *Based on this decision clarity responses were only issued to Bidder 2 and Bidder 4 (those bidders who indicated the use of TE as a subcontractor); “*

179. CNR was Bidder 1 for Diesels. An extract from their RFP submission is set out below:

2.1 Local content plans per supplier and component

Reiterating our commitment to Transnet's Supplier Development requirements, it needs to be mentioned that The CNR Consortium has entered into an agreement with Transnet Engineering as its major local Supplier Development (SD) partner for the manufacture of certain components and the assembly of the locomotives after delivery of an initial quantity of 20 fully build-up units.

180. Based on the above, the reported assertion by Supply Chain Services that “*Bidder 1 did not specify the use of TE as the main subcontractor*” is incorrect.

Inconsistent interpretation of BAFO across Diesel Bidders.

181. All the documentation in this subsection was obtained through MNS with the exception of **Annexure 66**.

182. On 20 December 2013 CNR and other diesel bidders were requested to provide a breakdown of their RFP Annexure E costs (**Annexure 101**). The request to CNR asked for an explanation of the costs shown below.

Manpower costs (Tenderer's manpower cost)	R	57 680 899.00
Factory Overheads (Rental, depreciation & amortisation, utility costs, consumables etc)	R	167 917 477.00
Admin Overheads & Markup (Marketing, insurance, financing, interest etc.)	R	5 232 393 194.00

183. CNR replied on 22 December 2013 (**Annexure 102**).

184. On 4 January 2014 diesel bidders were invited to submit their Best and Final Offers.

The letter to CNR is attached as **Annexure 95**. The response date was 10 January

2014. Guidelines included in the request were, inter alia:

184.1. Base price excluding hedging and escalations

184.2. Base price using sub-contractors of your choice not Transnet Engineering.

185. CNR responded on 4 January 2014, first requesting a 14 day extension and again on 6 January 2014 requesting a 21 day extension stating that re "*Item 2 – Base price using sub-contractors of your choice not Transnet Engineering*" are concerned, we are *extremely concerned that the time allowed for us to respond will not be sufficient.*" (**Annexure 96**)

186. GE replied to the 4 January request on 10 January 2014 (**Annexure 97**). Their revised prices were:

- 186.1. Base price with TE as subcontractor, R25,624,560 per locomotive
- 186.2. Base price with subcontractors of GESAT's choice, not Transnet Engineering, R24,311,700 per locomotive
187. CNR replied to the 4 January request on 10 January 2014 (**Annexure 98**).
- 187.1. "We have reduced our Base Price in the TCO model (as referred to in your letter of 4 January 2014), from R39,735,831 (thirty nine million, seven hundred and thirty five thousand, eight hundred and thirty one rands) to R27,360,000 (twenty seven million, three hundred and sixty thousand rands). This price relates to the cost of manufacture and does not include Training costs, Logistics, Royalties, Technical Support, Service Charges, Finance Costs and Contingencies, etc."
- 187.2. I believe that the above qualification does not constitute a comparative BAFO price. In support of this belief, it should be noted that the reduction of R12,375,831 multiplied by 465 diesel locomotives amounts to R5,754,766,145 which exceed the entire amount in their Annexure E from the RFP (refer to para 182).
188. On 14 January 2014, Molefe writes to CNR (**Annexure 99**) that their 10 January response, inter alia, "*did not indicate **the foreign currency amount per individual currency and amount***." (original bold and underline).
189. CNR responds on 14 January 2014 (the same day), referring to their tender proposal of 30 April 2013 (**Annexure 100**).
190. On 15 January 2014, the Cross Functional Evaluation Team (CFET) (Finance) submit the results of the "Best and Final Offer" responses to the Locomotive Steering Committee (**Annexure 66**).



BAFO prices were not a reflection of the real cost of locomotive

191. To determine the Estimated Total Cost of a project, in this case the acquisition of 1064 locomotives, requires as an input, the real cost of the locomotive. The makeup of the real cost is set out in pages 40 and 37 of **Annexures 83 and 84** respectively.

192. With the impact of TE excluded from the BAFO price, the “BAFO Evaluated price” in the memoranda of 15 January to the Locomotive Steering Committee (**Annexures 65 and 66**) cannot be used as to determine the Estimated Total Cost.

192.1. The memoranda are correctly qualified in that they must be read in conjunction with the CFET (Finance) reports dated 10 December 2013.

193. The financial analysis I performed in January 2018 for Transnet Freight Rail on the increase in ETC from R38.6bn to R49.55bn assumed as an input the BAFO prices of the memoranda of 15 January 2014.

193.1. At that stage I did not have sight of the CFET (Finance) reports of 10 December 2013. (**Annexures 83 and 84**)

194. A consequence of the above, where the BAFO prices are not a reflection of the real cost of a locomotive, is that the financial evaluations I performed in January / February 2018 do not include the premium that would be paid to TE.

January 2018 Price Validation

195. In this section I will describe how I was approached by Transnet to assist in the validation of the final contracted price for the 1064 locomotives and in the process uncovered:

195.1. Pertinent and anomalous information relating to the final contracted price

195.2. Inconsistencies in the make-up of the locomotive prices



- 195.3. Inconsistencies in the local content that were outside the parameters set by Department of Trade and Industries
196. In January 2018 I was approached by Galeni and Pita to assist in reconciling the R38.6bn posited by the business case to the R49.55bn (excluding options and contingencies) finally contracted for the 1064 locomotives. This was shortly after the publication of the Werksmans report and Transnet, as I understood it, wished to develop a formal response.
197. I was part of a team that primarily comprised Yousuf Laher and Mohammed Moola, Executive Manager, Finance, Freight Rail. Others participated but in a secondary role. Our brief was two-fold:
- 197.1. To show conclusively that forex hedging, and escalation were included in the business case and
 - 197.2. Reconcile the R38.6bn of the business case to the contracted amount of R49.55bn.
198. The first task of showing that forex hedging and escalation were included in the business case was easily completed by reference to the numerous instances where it is mentioned in the business case and incorporated in the financial models.
199. It is a personal observation that the business case would have been better served had the assumptions around forex hedging and escalation been clearly identified in appropriately titled paragraphs in the final business case.

Locomotive Pricing Validation and March 17 Negotiation Spreadsheet

200. The prices used in the business case for the locomotives were diesel R25.2m (US \$2.6m) and electric R33.9m (US \$3.5m). This price should include the base price, engineering support costs, special tooling and test equipment requirements, initial

spares, setup costs, customs and excise and insurance costs as well as optional extras. All these are required to deliver an in-service locomotive. The optional extras are important and may or may not be included in the tenderer's base price but are required in the delivered locomotive. Other optional extras such as Radio Distributed Power (RDP) capability are generally not included in the base price but are required by Freight Rail for operational reasons and inter-locomotive compatibility.

201. The comparison of locomotive prices focused on the diesels and electrics respectively and their subtotal of R36,368 million (excluding contingencies).
202. The methodology used in the pricing validation request was to reconstitute the McKinsey model and update it with the "as bid" locomotive prices, a year's delay in the award of the tender, updated foreign exchange (forex) curves, revised delivery schedules and local content. Each of these steps would have a distinct outcome and the step effect on the final price could be modelled.
203. For the analysis I used the 15 January 2014 submissions from the Cross Functional Evaluation Team (Finance) (CFET Finance) to the 1064 Locomotive Steering Committee. (**Annexures 65 and 66**). These documents contained the Best and Final Offer (BAFO) prices of the various bidders as at 10 January 2013.
 - 203.1. I read the documents at the time as being a true and valid comparison for evaluation purposes. The analysis team used these prices for the calculations.
204. I completed the analysis and presented the results to Freight Rail on 2 February 2014 (Annexure 103). The ETC presented was R40.457 bn.
 - 204.1. Regrettably the same prices were used for diesel and electric and locomotives. When this was subsequently corrected, the ETC reduced to R39.497 bn. (Annexure 104)



205. This initial analysis, however, as commented earlier, does not include the premium paid to TE as the BAFO prices used were not the true base price of the locomotives.

March 17 Negotiation Spreadsheets

206. It was 25 January 2014, that I received the two excel files, "Negotiations Electrics 17 Mar 2014.xlsx" and "Negotiations Diesels 17 Mar 14.xlsx" (**Annexures 83 and 84**).

206.1. I was aware of their existence having seen them as part of a very brief presentation to the team but was told they were restricted and/or confidential and I could not gain access to them. I subsequently asked the Freight Rail CFO for access to the files and after a few days received them from her office.

206.2. The importance and content of the two files of excel spreadsheets has already been covered in para 159. i.e. the time line they represent, correlation to other documents and the final contracted amount.

Analysis of March 17 Negotiation Spreadsheets

207. Three further Annexures are added:

207.1. **Annexure 78.** A side-by-side comparison for the Base Cost, Base Cost (exc TE) and the Negotiations cost for the diesel locomotives. The file contains additional illustrative workings and comments.

207.2. **Annexure 79.** A side-by-side comparison of the Base Cost, Base Cost (exc TE) and the Negotiations cost for the CSR locomotives. The file contains additional illustrative workings and comments.

207.3. **Annexure 80.** A side-by-side comparison of the Base Cost, Base Cost (exc TE) and the Negotiations cost for the Bombardier (also referred to as BT in



the worksheets) locomotives. The file contains additional illustrative workings and comments.

208. On examination I could not credit that the figures in the spreadsheets were a true reflection of the real cost of the locomotives for the following reasons:

208.1. The escalation costs were inflated, and I could not correlate these with any of the locomotive modelling I had previously done. (**Annexures 70 and 75**)

208.2. There were unexplained variations in the foreign exchange component affecting the locomotive price as it changed between the worksheets of Base cost, Base cost (excluding options), Base cost (excluding TE) and Negotiations. (**Annexures 78, 79 and 80**)

208.2.1. These unexplained adjustments in the foreign exchange component, in certain cases, appear to have been used to artificially inflate or lower the locomotive price.

208.3. There were significant variations in the cost of reduced batch sizes.

208.4. The foreign exchange component amounts used in the final negotiation spreadsheet would cause some locomotives (CNR, CSR and Bombardier) not meet local content requirements. (**Annexures 78 79 and 80** respectively)

208.5. The electric “negotiations” worksheet contains several side-bar calculations of locomotive prices of up to R60m per locomotive (**Annexure 72**). I correlate this with the passage talk that accelerating the locomotive delivery saved us some R10m per locomotive. Electric locomotive prices of around R60m are unwarranted and indefensible.

208.6. The diesel “Negotiation Price recon” worksheet (**Annexure 77**) contains inexplicable discounts on exchange rate impact and escalation.



208.7. Some formula used in the “negotiations” worksheet have hallmarks of reverse engineering to achieve a desired result. These are not visible in the pdf format of the annexures. This particularly applies to the foreign exchange component and cells coloured yellow.

Observations and Conclusion

209. Adding back the TE component significantly increases the base price of the locomotive. As already pointed out, page 40 of the 10 December 2103 Electric Locomotive Report of the CFET (Finance) (**Annexure 83**) provides a clearer picture of the real cost per locomotive per bidder in the row Sub Total 3 (Total Price before TE adjustment). These are normalized to November 2013.

210. The BAFO prices of the 15 January 2014 memorandum from the CFET Finance cannot be used as a basis for determining the Total Estimated cost as:

210.1. I submit that without detailed knowledge of, and access to, the supporting documents, the average reader would interpret the BAFO prices of the 15 January 2014 memorandum to the Locomotive Steering Committee as a reasonable basis for comparison.

210.2. It is an open question what the evaluation of the electric locomotives would have been if the base price i.e. before the TE adjustment had been used for the price evaluation.

211. Laher is the primary author of these two excel spreadsheets of 17 March 2014. Laher is a signatory to the BAFO evaluation of 15 January 2014 and was furthermore a member of the negotiation team for the 1064 locomotives comprising inter alia, Molefe, Singh, Gama, Pita, Jiyane, Mdletshe and Ndiphiwe Silinga, General Manager Group Legal Services.

211.1. With this knowledge, I was disappointed that the exercise undertaken in January 2018 was in good faith but Laher, with full knowledge of the pricing details and negotiations, chose not to share this knowledge including the spreadsheets and evaluation reports with the members of the team to arrive at an honest and accurate assessment of the increase in ETC from R38.6bn to around R49.55bn or R54bn if options are included.

212. The ETC increase requested by Molefe to the Board Acquisitions and Disposal Committee (ADDC) was from R38.6bn to R54.5bn (**Annexure 85**).

212.1. This included Contingencies of R4.9bn which would include options such as *“electronically controlled pneumatic braking and wire distributed power etc”* (**Annexure 85**, para 72).

212.2. These options were included in BAFO prices of the CFET (Finance) Evaluation Reports of 10 December 2013 (**Annexures 83 and 84**) and the 15 January 2014 memoranda to the Locomotive Steering Committee (**Annexures 65 and 66**). ,

212.3. Inexplicably, these required options were omitted during the negotiation stage and left to be added later under contingencies.

Report to Gama and others

213. On 22 February 2018 I sms'd Gama to request a meeting regarding the information and insight I had obtained from the negotiation files. Gama requested that I prepare a report for him which I e-mailed on 26 February 2014 (**Annexure 86**) for the electrics and on 27 February for the diesels. (**Annexure 87**)

214. On 27 February 2018 I emailed Galeni, copying her on my emails to Gama but also requested that if she can to *“please trace and freeze the laptop with the file*



"Reconciliation of inflation Forex and TE Scope 26 Feb 2014.xlsx" I believe it should form part of the forensic audit. Someone in SCS should have this file as it is often referenced in the two files that Lerato sent us." (Annexure 88)

214.1. The two files referred to are the 17 March 204 spreadsheets. (Annexures 83 and 84).

214.2. I was really disappointed to later hear the laptop of Mdletshe had gone missing.⁸ I believed it contained the file referred to above.

215. Gama responded on 26 March 2018 with some comments, questions and requested a meeting. I responded on 26 March 2018 with a tranche of three emails (Annexure 89, 90 and 91). Annexure 88 details my concerns but I would highlight one of Gama's comment that *"....Yousuf Anoj..... assured me that they got the best fixed (hedging) rates for us and this would avoid a scandal such as the arms deal as this was in Rand and fixed....."*. I responded that *".... I believe this to be a partial truth. The full detail is exposed in the negotiation spreadsheets"*

216. I met with Gama and Silinga on 3 April 2018. Gama and Silinga expressed surprise at some memoranda presented saying they had not seen them before.

217. In the meeting Gama undertook to take this matter to the Chair of the Audit Committee.

218. The following day I emailed Silinga copies of all the documentation I had previously emailed Gama. (Annexures 92, 93 and 94)

219. I had no further communication from Gama, Silinga or the Audit Committee on this matter.

Concluding Remarks


⁸ MNS report: 14 August 2018, page 142.



220. The programmatic replacement of the Transnet Rail General Freight locomotive fleet was absolutely necessary. The last batch of locomotives for General Freight had been bought in 1992 and the greater part of fleet was beyond its economic life. Upgrade programs had exhausted all realistic options to keep the fleet running.
221. The Market Demand Strategy was a catalyst and the change in strategy, from responding to demand to creating capacity that can absorb demand, could have worked.
222. For me, it is unfortunate that the aggressive Market Demand Strategy was not backed up by further rigorous evaluation and adjustment as the market dictated.
223. Supply Chain Services, I believe, failed Freight Rail in the locomotive procurement process. With good intention, it was to create a mechanism separating technical interests from the procurement process. However, it failed Freight Rail in that it presumed to be the final arbiter of what Freight Rail needed in its locomotives rather than a custodian of due process. It failed to create the mechanism for programmatic procurement adjusting delivery to changing market conditions; it failed to include essential options in the procurement of locomotives, and, for whatever reason, it decided on the type of locomotive to be procured without technical consultation. I don't know if anyone in Supply Chain Services ever read the 1064 locomotive business case.
224. The aggressive procurement of the locomotives and shortening the delivery from 7 years to 3 years has severely impacted Transnet and Freight Rail. Transnet Engineering was never going to be ready or able to deliver the locomotives in the accelerated time frame, Freight Rail did not have the capacity to absorb the accelerated delivery and the financial impact was massive with Transnet almost transgressing its cash interest cover and having to increase its foreign borrowings.



225. A premise of the business case was that locomotive performance would improve with new, more reliable, and more powerful locomotives. I understand it is now worse than before the acquisition process started.
226. My colleagues and I shared a vision of recreating a sustainable, viable local locomotive industry supplying between 60 and 100 locomotives annually to Freight Rail. Sadly, that will not be realised and it will be a decade or more before the opportunity may arise again.
227. Thank you for this opportunity to present what I know about the 1064 locomotive procurement from my time and involvement with Transnet Freight Rail.
228. My thanks and gratitude also go to my colleagues and co-railway workers with ballast dust on their shoes; keep the wheels turning.
229. If I may be permitted a quote from Charles Dickens from A Tale of Two Cities *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way..."*



FRANCIS QUENTIN CALLARD

DATE:

29 April 2019

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ANNEXURES TO STATEMENT

FRANCIS CALLARD

ITEM	DOCUMENT	Paginated #
1	Updated memorandum to BADC for an additional 100 19E type equivalent electric locomotives for the coal export line. October 2013	
2	Exchange of SMS's between Gama and Callard re the 100 locomotives	
3	Updated memorandum for an additional 100 19E type equivalent electric locomotives for the coal export line signed by Gama on 25 November 2013	
4	SMS from Gama on 18 January 2014 asking for a revised business case for additional 100 19E type equivalent electric locomotives and 80 diesel locomotives	
5	Email to Gama on 20 January 2014 with revised 100 locomotive business case. - BADC 100 80 Revised V14 0120	
5A	Revised 100 locomotive business case of 20 January 2014 - BADC 100 80 Revised V14 0120	
6	Email to Jiyane on 21 January 2014 with revised 100 locomotive business case. - BADC 100 80 Revised V14 0120	
7	Email from Mdletshe requesting assistance with changes to the 100 locomotive business case	
7A	Altered 100 locomotive business case received from Mdletshe on 22 January 2014 with reference to 19E equivalent locomotives removed. BADC 100 80 Revised V15 0120 GP	
8	A comparison of the business case of 20 January 2014 (...V14 0120..) with that received from Mdletshe on 22 January 2014 (.....V15 0120 GP.docx)	

9	Email from Callard to Gama and Jiyane on 23 January 2014 expressing concern regarding the altered business case for the 00 locomotives	
10	Email from Gama to Singh on 23 January 2014 summarising Callard's concerns regarding the altered business case for the 100 locomotives	
11	Email from Singh to Gama on 24 January 2014 acknowledging his mail	
12	Email from Singh to Molefe on 24 January 2014 forwarding Gama's mail	
13	Minutes of the BADC meeting on 24 January 2014	
14	Business case for the 100 locomotives presented to BADC signed by Sing and Molefe (22 January 2014) as presented to BADC	
15	Email of 18 February 2014 that the 100 heavy haul coal line locomotives had been approved and a specification was required for tendering purposes.	
16	Letter of 19 February with requirements and revised specification for the 100 locomotives	
17	Email of 21 March 2014 from Laher with spreadsheet of CASHFLOWS_FINAL_17MARCH14 (2).xlsx and extracts from spreadsheet:	
18	Email of 15 April 2014 from Laher requesting assistance to update memorandum from Molefe on the 1064 increase in ETC	
18A	The memorandum attached to the email from Laher on 15 April 2014	
19	Email of 6 June 2014 from Harris to Roper expressing concerns about production delays	
20	Email of 10 June 2014 and draft memorandum to Roper for Molefe requesting that 100 locomotives be fully assembled in China	
21	Email of 24 October 2014 to Budhai with updated risks	

	and mitigating actions concerning the 100 locomotives	
22	Email of 8 December 2014 from Harris with locomotive delivery schedule	
23	Void	
24	Void	
25	Predicated volume growth extracted from final 1064 business plan	
26	Email 9 April 2013 on Economic Assumptions to Support 7 Year MDS	
27	Email 10 May 2013 on inconsistencies in ArcelorMittal volume assumptions	
28	Email 21 May 2013 on coal Projects and Interdependencies	
29	Email 17 May 2013 on inconsistencies in the ratio of coal to steel for Newcastle plant	
30	Email 17 May 2013 on unexplained increase in output of Exarro Leeuwpans mine	
31	Email of 15 August 2013 on outcomes of the MDS and Capital Risks Workshop	
32	Email of 29 August 2013 on outcome and actions resulting from the MDS workshop	
33	Email of 2 September 2013 with moderated outcome and actions of the MDS workshop	
34	Email of 4 September 2013 to Khumalo on the outcomes and actions of the MDS workshop	
35	Email of 10 September 2013 highlighting ongoing questions regarding the MDS traffic file	
36	First 1064 business case presented to Transnet net Freight Rail Investment Committee on 9 March 2012 with ETC of R38 146m	
37	Gama presents updated version of 1064 business case to CAPIC on 19 March 2011	
38	CAPIC meeting of 21 May 2012 decided that an external	

	party should review the 1064 business case	
39	Email of 2 July 2012 with wagon business case to complement locomotive business case	
40	Email of 3 April 2013 from Bouwer to Mahomedy expressing concern about McKinsey	
41	Email drafted by Callard expressing concern about McKinsey	
42	Email 11 April 2013 on readjusting the 1064 locomotive delivery timeline. Email also indicates escalation, hedging and locomotive base price.	
43	Team Email of 13 April 2013 on interaction with McKinsey the previous day	
44	16 April 2013 version of the 1064 business case reflecting the purpose is to create 28 000 new and indirect jobs.	
45	Email of 16 April 2013 where team Pillay, Bouwer and Callard extensively revise the 1064 business case	
46	17 April 2013 version of the 1064 business case ready for circulation to the Locomotive Steering Committee	
47	17 April 2013 version of the purpose of the 1064 business case.	
48	Email of 18 April 2013 from Mckinsey with comments, inter alia, on hedging and escalation	
49	Email of 25 April 2013 circulating the draft minutes of the Locomotive Steering Committee Meeting	
49A	Draft Minutes of the Locomotive Steering Committee Meeting of 25 April 2013	
50	Email 24 April 2013 from McKinsey noting BADC approval and requesting minor updates to the 1064 business case	
51	Email 29 April 2013 from Budhai requesting review and comment on the updates requested by BADC	
51A	29 April 2013 version of the purpose of the 1064	

	business case.	
52	30 April 2013 version of the purpose of the 1064 business case. Cover page still dated 25 April 2013. Escalation and hedging excluded.	
53	Metadata of editing of 30 April (25 April cover page) version of the 1064 business case.	
54	25 April 2013 Final version of the 1064 business case as approved the Transnet Board	
55	Email 28 February 2014 indicating the effect of the accelerated locomotive delivery on the various locomotive programs	
56	Freight Rail's response to the Locomotives Aggressive delivery Schedule - 11 February 2014	
57	26 February 2014 to Singh that, inter alia, Freight Rail cannot absorb more than 300 locomotives per year	
58	Freight Rail's updated response to a peak accelerated delivery of 480 locomotives per year - 11 March 2014	
59	Email 29 May 2014 on the workshop to discuss the tasks and actions of the de facto accelerated delivery	
60	Email 1 July 2014 from Strategy and Business Planning on the 1064 accelerated delivery	
61	Email 10 July 2014 from Strategy and Business Planning on presentation to EXCO on 1064 accelerated delivery	
62	Email 16 July 2014 on the concluding slide for the presentation to Transnet Group EXCO	
62A	Extract from PWC presentation of February 2014 on TE ramp up risk	
63	Emails of 23 October 2014 on increasing Transnet's Foreign Borrowing Limit	
64	Presentation on increasing Transnet's Foreign Borrowing Limit – 23 October 2014	
65	15 January 2014 CFET (Finance) memo on 599 electric	

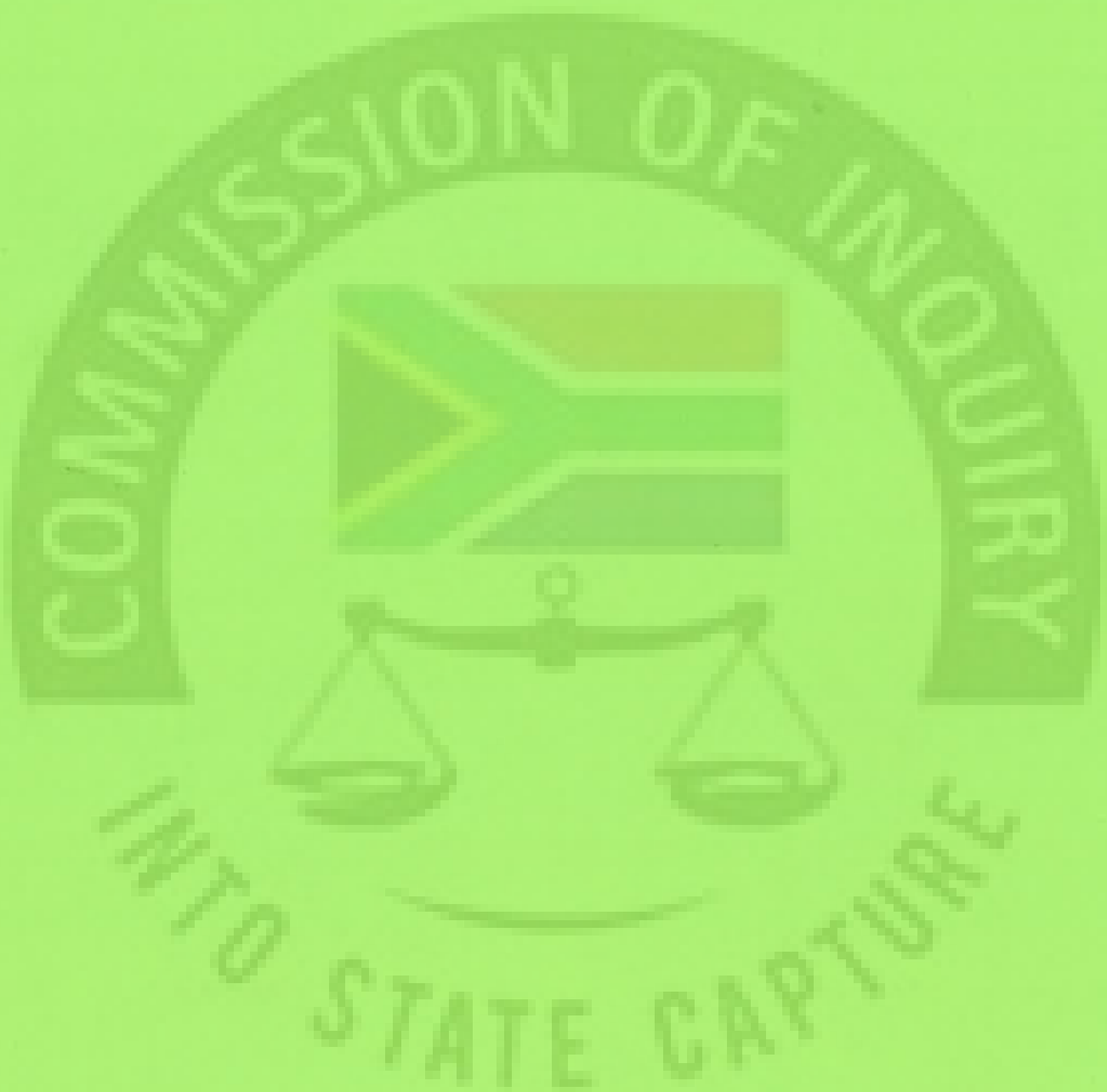
	locomotives – BAFO responses	
65A	15 January 2014 CFET (Finance) memo on 599 electric locomotives – legible copy	
66	15 January 2014 CFET (Finance) memo on 465 diesel locomotives – BAFO responses	
66A	15 January 2014 CFET (Finance) memo on 465 diesel locomotives – legible copy	
67	17 March 2014 Negotiation Spreadsheet Electrics - Base cost	
68	17 March 2014 Negotiation Spreadsheet Electrics - Base cost (excluding options)	
69	17 March 2014 Negotiation Spreadsheet Electrics - Base Cost (Exc TE)	
70	17 March 2014 Negotiation Spreadsheet Electrics - Negotiations	
71	17 March 2014 Negotiation Spreadsheet Electrics - Media	
72	17 March 2014 Negotiation Spreadsheet Electrics - Negotiated price recon	
73	17 March 2014 Negotiation Spreadsheet Diesels - Base Cost	
74	17 March 2014 Negotiation Spreadsheet Diesels - Base Cost (exc TE)	
75	17 March 2014 Negotiation Spreadsheet Diesels - Negotiations	
76	17 March 2014 Negotiation Spreadsheet Diesels - Media 17 March	
77	17 March 2014 Negotiation Spreadsheet Diesels - Negotiated Price Recon	
78	17 March 2014 - Diesel working analysis	
79	17 March 2014 - CSR workings	
80	17 March 2014 – Bombardier Working Analysis	
81	RFP Diesel Locomotives Part 2 Extract	

82	3 August 2018 PFMA approval for 1064 locomotives	
83	10 December 2013 Report of CFET(Finance) on 599 electric locomotives – Stage 6 evaluation	
84	10 December 2013 Report of CFET(Finance) on 465 diesel locomotives – Stage 6 evaluation	
85	14 May 2014 Memorandum from Molefe to BADC re 1064 increase in ETC	
86	Email 26 February 2018 to Gama on 599 electric locomotives and requesting meeting	
87	Email 27 February 2018 to Gama on 465 diesels	
88	Email 27 February 2018 to Galeni requesting that laptop be secured	
89	Email (1) 26 March 2018 with Gama responding to queries on 1064 locomotives	
90	Email (2) 26 March 2018 to Gama regarding splitting of diesels	
91	Email (3) 26 March 2018 to Gama regarding acquisition of 100 locomotives and change from Mitsui to CSR	
92	Email (1) 4 April 2018 to Silinga copying mails previously sent to Gama	
93	Email (2) 4 April 2018 to Silinga copying mails previously sent to Gama	
93	Email (3) 4 April 2018 to Silinga copying mails previously sent to Gama	
95	Letter 4 January 2014 to CNR from Singh requesting BAFO price	
96	Email 6 January 2014 from CNR requesting 21 day extension to submit BAFO price	
97	Letter 10 January 2014 from GESAT with BAFO price	
98	Letter 10 January 2014 from CNR with BAFO price	
99	Letter 14 January 2014 from Molefe to CNR regarding foreign currency declaration	

100	Letter 14 January 2014 from CNR responding to foreign currency query	
101	Letter 20 December 2013 to CNR requesting breakdown of Annexure E of RFP	
102	Letter 22 December 2013 from CNR with breakdown of Annexure E from the RFP	
103	Email 8 February 2018 to Freight Rail with results of the ETC calculations for the 1064 locomotives.	
104	Results of January / February 2018 analysis for Freight Rail on the ETC for the 1064 locomotives with corrected pricing.	



ANNEXURE FC1





MEMORANDUM

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 15 October 2013

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 CLASS 19E EQUIVALENT DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 60 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
 - a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
 - b) To approve the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs):
 - c) To approve the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives.
 - d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs):
 - e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives:
 - f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
 - a) The heavy haul 100 Class 19E locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan
 - b) The 60 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 60 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 60 locomotives

4. The Class 19E dual voltage electric and Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.
5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Class 19E electric locomotives to MARS and extending the current Class 43 Contract with GESAT by 60 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
6. The confinement to MARS and extension of the GE contract is motivated on the basis of urgency.
7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
8. The 60 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
10. The proposed transactions do not increase the risk related to the 1064 tender process.
11. Socio-economic benefits will be realised in line with existing commitments and expectations.
12. The context and arguments are presented as follows:
 - a) History and Status of the TFR Fleet Plan
 - b) Status of the 1064 Procurement
 - c) Impact of the 1064 delay
 - d) MDS Risk Mitigation
 - e) Project Benefits
 - f) Procurement Strategy
 - g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 67 "Extract from Procurement Procedures Manual" refers)

History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August 2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013.

15. The history and status of the TFR Fleet Plan is summarised in the table below:

Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100 19E)	97.5	<ul style="list-style-type: none"> • Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (off the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		<ul style="list-style-type: none"> • 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		<ul style="list-style-type: none"> • In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the aging fleet and 19 for volume expansion. • GE won the tender, which was confined to three companies, and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	<ul style="list-style-type: none"> • In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		<ul style="list-style-type: none"> • In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	<ul style="list-style-type: none"> • August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
60		<ul style="list-style-type: none"> • 60 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.

Loco Fleet History and Plan	Tons	Comment and Update
Ore Export Line (30 ton axle)		
44 <u>32</u> 76	44 mt 60 mt	<ul style="list-style-type: none"> • 44 15E bought open tender (Toshiba / Mitsui) to replace / supplement existing 9E locomotives and Class 34 GE Diesels with an option for a further 18 locomotives. • The option to extend by 18 locomotives was not exercised. • A new confined contract was entered into with Mitsui for a total of 32 locomotives to take the Ore Export Line to 60 mt. This confinement was motivated on standardisation of the fleet. • ~ 110 Class 34 GE diesels returned to General Freight and replaced with 30 Class 43 GE. • Potential General Freight traffic may materialise from 2013/14 on the Ore Export line and 4 9E locomotives may be retained for this traffic.
23 15E and 3 Diesels	80 mt	<ul style="list-style-type: none"> • The volumes are not likely to materialise in the 7 year MDS program. The FEL feasibility study is on hold and there is currently no commitment to the increased volumes. • The locomotives are also put on hold. • The 15E production line has shut down. As and when required, the procurement options will be evaluated against standardisation, cost and interoperability. • Diesels, if required, will be provided from the GFB fleet

16. The essential points relating to this proposal are:

- a) The 100 Class 19E locomotives are for the coal line and were always part of the TFR locomotive fleet plan. See Para 35 and following. They release locomotives that can be used on GFB for the year that the 1064 program is delayed.
- b) The 60 Class 43 diesel locomotives are not part of the 1064 locomotive program.
 - i. They are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.

17. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances and this flexibility has been built into the tender and will be carried forward in the ultimate contracts.
18. The rationale for the 100 Class 19E and 60 Class 43 Diesel not being part of the 1064 locomotive process are covered under the Procurement Strategy Para 58.a) and following.
19. The future acquisitions for the expansion of the Coal Export line to 97.5 mt and the Ore Export line to 80 mt will depend on market conditions and development of the full supply chain across all stakeholders.

History and Status of the 1064 Procurement

20. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and synchronised approach across locomotives, wagons, infrastructure and personnel and these aspects were covered in the 1064 business case submission.

21. The history of the 1064 procurement is depicted in the exhibit below.

	2011/12			2012/13			2013/14			2014/15			2015/16			2016/17	2017/18	2018/19
1064	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Current GF Fleet Runout																		
March 2012																		
Assessing																		
95 CSR																		

22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Freight Rail Investment Forum.

23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:

- An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and
- Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.

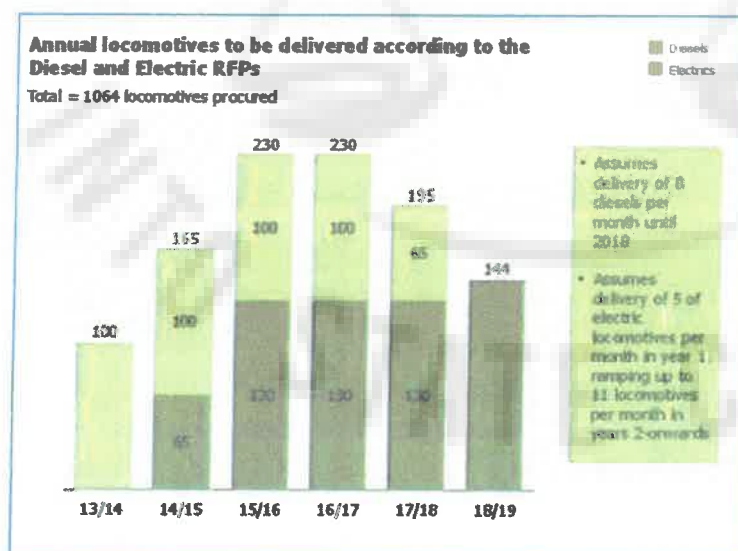
24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.

25. Board approval was obtained in April 2013 and PFMA approval in August 2013.

26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained.

27. It is expected that adjudication will be finalised by February 2014 and contracts awarded by May 2014.

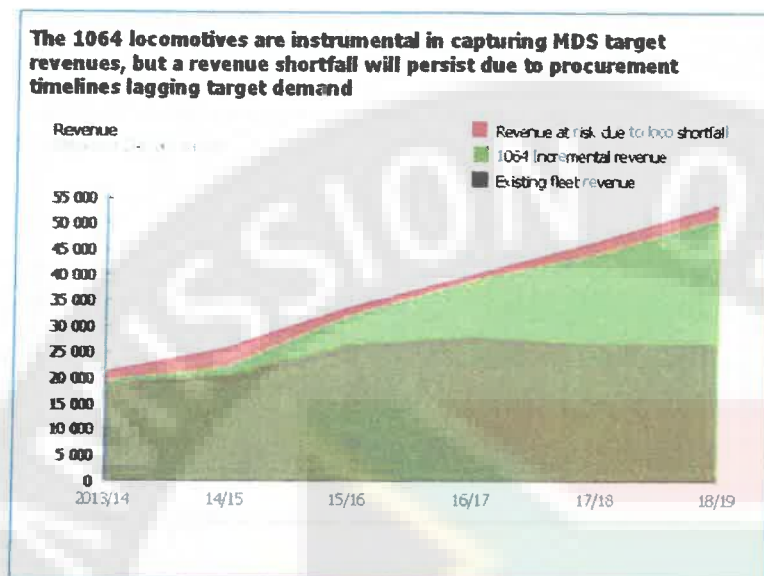
28. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption.



29. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDC.

Impact of the 1064 Delay

30. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.



31. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall		MDS Shortfall Scenario - One Year Delay						
Locomotives		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay		33	138	314	533	763	946	1040
Year Delay		0	57	202	405	638	828	972
Impact								
Locomotives	#	33	81	112	129	125	118	68
Tons	Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue	Rm	363	1286	2610	3639	4073	4188	2584
Capital	Rm	-1725	-1248	-1641	276	381	20	5249
Mtce.	Rm	36	91	132	159	162	160	96
Fuel and Elec.	Rm	67	183	331	440	469	471	290

Shortfall Total One Year Delay		2013/14 - 16/17
Tons	Mt	30
Revenue	Rm	7 900
Mtce.	Rm	417
Fuel and Elec.	Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total Two Year Delay	2013/14 - 16/17
Tons Mt	56
Revenue Rm	14 743
Mtce. Rm	901
Fuel and Elec. Rm	2052

c) Notes to tables:

- The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.
- The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION

MDS Risk Mitigation

32. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - Tons Protected	2.4	2.4	4.4	7.2	16.44 Tons
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
60 Diesels Tons Protected		3.8	7.9	7.9	19.6 Tons
Income Protected Rm		R 930	R 2 018	R 2 086	R 5 033
Total Tons	2.4	6.2	12.3	15.1	36.04 Tons
Income Protected Rm	R 541	R 1 517	R 3 152	R 3 987	R 9 197

33. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which are the new operating procedures introduced on the Coal Export Line.

34. The prime motivators for this submission are to:

- Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
- Ensure delivery earlier than the 1064 program by:

- i. Confining the procurement of the electric locomotives
- ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Class 19E Dual Voltage Electric Locomotives:

35. The 100 Class 19E locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.
36. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with Class 19E equivalent locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.
37. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the Class 19E locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity.
38. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.
39. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.
40. The 100 Class 19E locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Class 19E type locomotives with significant operational and cost advantages.
 - a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.
41. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Class 19E locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;
 - a) 40 in 2013/14
 - b) 74 end 2015/16
 - c) 120 end 2016/17
42. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.

43. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.
44. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

45. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

46. The 100 Class 19E business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.
47. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.

48. Other aspects more fully covered in the 100 Class 19E Locomotive submission are:

- a) Reliability and Operational efficiency
- b) Savings on operational expenditure and capitalised maintenance
- c) Energy Savings
- d) Locomotive Fleet Plan and Standardisation and its benefits which include:
 - i. The fleet is standardized with operational interoperability
 - ii. Standard maintenance practices are propagated
 - iii. Reduction in spares holdings and special tools

MDS Shortfall – 60 Class 43 Diesel Locomotives

49. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 60 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream in 2015.
50. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.
51. The 60 locomotives have a potential mitigation of 3.8 – 7.9 mt at an average 8 149 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 033 m (cumulative 2014/15 - 2015/16). The exact allocation of the 60 locomotives will be confirmed at the time of deployment over the following flows:
- a) Botswana Coal to Bulk Connexion and Richards Bay.
 - i. Potential 1.8mt – 3.8mt
 - ii. Diesels required: 35 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month: 5 957
 - b) Elitheni Coal from Sterkstroom to East London
 - i. Potential 1mt to 2.5mt
 - ii. Diesels required: 15 inclusive of technical allowance
 - iii. Potential GTK's per loco per month: 12 784
 - c) Manganese from Postmasburg to Bloemfontein / Bloemcon
 - i. Potential 1 - 1.6mt mostly from new entrant miners.
 - ii. Diesels required: 10 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month : 7 821

PROJECT BENEFITS

52. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Class 19E and R5 033 m for the 60 Class 43 Diesels over the period 2013/14-2016/17 .
53. Coal Export volumes and income are protected through improved reliability.

54. Sustainability objectives as per the Transnet Sustainability framework are met threefold:

- a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.
- b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.
- c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.

55. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.

56. Benefits specific to the 100 Class 19E include:

- a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
- b) The regenerative capability of the new locomotives introduces further energy savings of between 22% and 26%.
- c) Quantifiable savings in maintenance of the new locomotives over the older series.
- d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.

57. Benefits specific to the 60 Class 34 Diesels include:

- a) Fuels savings of 8% over the older diesel fleet.
- b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.
- c) Standardisation of maintenance regimes with current Class 43 fleet.
- d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.
- e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

58. The procurement process was carefully considered and was not taken into the 1064 locomotive process. Aspects considered were:

- a) **Type:** The 100 19E equivalents are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.
- b) **Delivery:** The 60 diesels are equivalent to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

59. The following options were considered and reasoned:

- a) Go out on tender

- b) Do Nothing
- c) Confine / Extend Contract
- d) Extend current 20E contract for 95 CSR Locomotives
- e) Leasing

60. **Go out on tender:** With this option the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It is however the best option insofar as public perceptions, fairness and transparency are considered.

61. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Base case R'm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 690	45 382	53 852	62 146	72 541	81 622
Operating Expenses	20 616	22 640	25 057	28 279	31 434	35 336
EBITDA	16 074	22 742	28 796	33 866	41 107	46 286

One Year Delay R'm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 327	44 096	50 512	56 163	64 513	72 480
Operating Expenses	20 514	22 367	24 594	27 680	30 802	34 704
EBITDA	15 813	21 729	25 917	28 483	33 711	37 776

62. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative implications regarding public and business sentiment. For these reasons (and as outlined above) this is not part of the 1064 process and will not impact on that process.

- a) The locomotives are known, meet requirements and prototyping is not required
- b) Extension of the GE contract is the fastest way to procure the diesel locomotives.
- c) The MARS facilities are available for immediate production which will result in significant savings.
- d) Both the extension and confinement are acceptable procurement mechanisms per the PPM for this instance.

63. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive and is not intended for heavy haul use on the Coal Export Line. The first delivery is awaited, the locomotive has still to be tested and it is at present unproven. Only after extensive type testing will it be possible to say whether and to what extent it can replicate the heavy haul capabilities of the 19E. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

Leasing: Leasing is not considered as an option having being covered in the Fleet Plan submissions and the options for the 1064. There is no viable external market for 1064mm dual voltage electric locomotives. South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

64. **Implications:** The 1064 tender is currently under adjudication. It is one of the largest procurement processes within Transnet and while it seeks (inter alia) to launch a South African

locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The tender calls for programmatic procurement and it is possible to reduce the final quantities. The following implications were considered in adjusting the (diesel locomotive) quantities.

- a) The tenders have closed and asking respondents for revised submissions would delay the process further.
- b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.
- c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

- 65. For reasons of urgency, the confine / extend contract option is the recommended option.
- 66. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

- 67. An extract from the latest approved Procurement Procedures Manual, dated 01 October 2012, stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

- a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.
- b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;
- c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or
- d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."

- 68. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.

- a) Item 13 et al covering the "History and Status of the TFR Fleet Plan" and the "History and Status of the 1064 Procurement" demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.
- b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.
- c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.

69. Addressing the urgency:

- a) The locomotives requested have been through the teething phase with most initial manufacturing and operational faults rectified. Present models are operating optimally and have exceeded their design parameters
- b) Re-starting of these production lines will be quick; the designs are finalised so delivery lead times will be kept to a minimum and set up costs reduced.
- c) Crew (drivers and assistants) are already trained on these locomotives.
- d) Confinement will realize the quickest delivery and existing facilities previously used for the assembly of the 110 x Class 19E.

70. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:

- a) Locomotives are highly specialised with limited suppliers worldwide.
- b) The locomotives would be largely identical with those already supplied as:
 - i. In 2009, Transnet Freight Rail (TFR) entered into a contract with Mitsui & Co African Railway Solutions (PTY) LTD (MARS for the procurement of 110 new Class 19E electric locomotives for the Coal Export Line; TFR took delivery of the last locomotive in August 2012. MARS are also delivering the Class 15E locomotives for the Ore Export line and the last one is due to come of the factory line in September 2013:
- c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 15 months before production commences.
- d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.
After many years these standards have now changed and TFR is evaluating the impact of these changes.
 - ii. Maintenance standardisation addresses:

- Reduced spares holdings and simplified and standardised inventory.
 - Standardised tools and diagnostic instruments serving a common fleet
 - Unified training and for maintenance staff.
 - Simplified maintenance practises resulting in shorter Mean Time to Repair.
- iii. TE is currently maintaining and repairing the Class 19E Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.

71. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

- a) the Class 19E locomotives are performing well and have proven to be both efficient and reliable and
- b) the Class 19E is a modern locomotive and the proposed 100 locomotives will be an extension of the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities of each type of locomotive:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 19E locomotives.

72. From a social-economic perspective the following jobs will be retained in assembly facilities:

- a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises
- b) Approximately 400 **jobs** will be created over the period at the Union Carriage Works assembly facility and further jobs will be retained in downstream enterprises
- c) Toshiba has indicated its serious intent in building a **traction motor assembly facility** in SA and this could be expedited through the SD obligations that would be linked to this contract.

73. The Japanese Yen has weakened marginally against the South African Rand. The Rand in turn has weakened significantly against the US Dollar. The foreign component of the original 110 x Class 19E contract was 40% Yen based and a contract on similar terms would be considerably cheaper than a new US Dollar based contract.

74. The original 110 Class 19E contract was entered into in 2006. The SD terms and conditions required today are significantly different and more stringent. This calls for a new procurement event via a confined tender.

75. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to MARS Railway Solutions, a subsidiary of Japan's Mitsui & Co Limited.

Contract Extension with GESAT for 60 Class 43 Diesels

76. The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:

- a) the basis of urgency (a) as outlined above
- b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).

77. The project is motivated on the basis of Item 67 Para (a) where a genuine unforeseeable urgency has arisen. The arguments are per Items 68 and 69 above are also applicable to the 60 Class 43 Diesels.
78. The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.5.3, allows for a contract extension. In this instance the request is for a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.
79. Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.
80. Addressing the urgency:
- a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011, through a confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.
 - b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.
 - c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.
 - d) No prototyping or type testing is required.
81. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:
- a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.
 - c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.
 - d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.

After many years these standards have now changed and TFR is evaluating the impact of these changes.

- ii. Maintenance standardisation addresses:
 - Reduced spares holdings and simplified and standardised inventory.
 - Standardised tools and diagnostic instruments serving a common fleet
 - Unified training and for maintenance staff.
 - Simplified maintenance practises resulting in shorter Mean Time to Repair.
- iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.

82. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

- a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and
- b) the proposed 60 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities required:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 60 Class 43 diesel locomotives.

83. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.

84. The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead. To breakeven point to set up new facilities is marginal for the 100 Class 19E but mitigates against new facilities for the 60 Class 43 diesels.

85. Given that a contract is already in place and that the additional 60 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

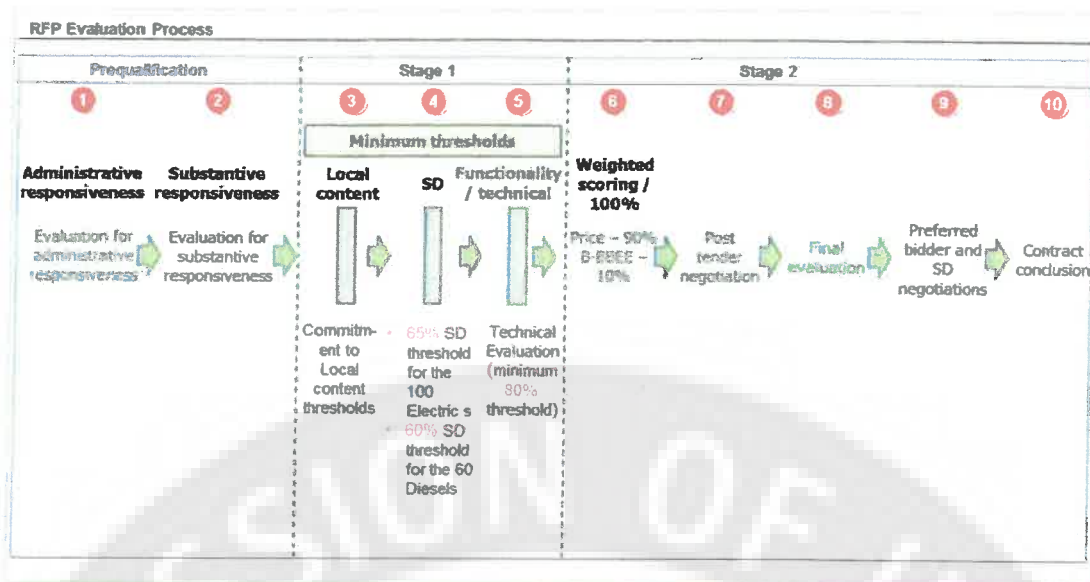
86. Extend the current contract with General Electric South African Technologies (GESAT) for 60 Class 43 Diesel Locomotives.

87. Confine and award to Mitsui & Co African Railway Solutions (PTY) LTD (MARS) for 100 Class 19E locomotives.

88. The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

89. The Request for Proposals (RFP's) for the confinement to Mars and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below. The normal open tender process would follow the evaluation methodology indicated below.



90. The Evaluation Methodology for an open tender comprises the following steps:

- 1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders
- 2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met
- 3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA
- 4) **SD thresholds** – the SD thresholds of 65% and 60% set for Electric and Diesel locomotives respectively must be met for bidders to proceed to the next step of the evaluation.
- 5) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.
- 6) A **weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used to determine final award
- 7) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers
- 8) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM
- 9) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future)
- 10) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.

91. The above process is modified for the proposed confinement and extension in that:

- a) Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.

- b) Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met
- c) Local content threshold must be met
- d) SD threshold must be met
- e) Technical evaluation (5) is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Class 19E's) for incorporation.
- f) Weighted Scoring Approach (6) and
- g) Final Evaluation (8) is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

92. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.
93. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1) are compulsory and are elaborated in following table:

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

94. In addition, the progressive Local Content for Designated Components (Section 3 (3.2) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

95. The Supplier Development targets are set out in the table below. They are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)	
Category	Weighting
Investment in plant – bidders monetary commitment to investment in plant and equipment	10%
Downstream procurement – bidders commitment to supporting 2 nd , 3 rd tier suppliers, etc.	15%
Skills development – supplier's commitment to skills development (number of people and monetary)	20%
Job creation / preservation – supplier's commitment to number of jobs maintained/created	30%
Small business promotion – supplier's commitment to usage of small businesses (monetary)	10%
ED/SD – bidders commitment to SD initiatives and ED development	15%
Total & Threshold > 65% for Electric and > 60% for Diesels	100%

Award Conditions – 100 Class 19E Equivalent

96. Approval to award the business to MARS is requested subject to SD compliance with the following:
- Local content meeting or exceeding 60% by value
 - Compliance with **new** SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco.

Award Conditions – 60 Class 43 Diesels

97. Approval to award the business to GESAT is requested subject to SD compliance with the following:
- Local content meeting or exceeding 55% by value
 - Compliance with **new** SD commitments with a minimum of 60% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco.

FINANCIAL AND BUDGET IMPLICATIONS

- The financial motivation and budget implications for the 100 Class 19E and 60 Class 43 Diesels are discussed in detail in the respective submissions.

100 Class 19E Equivalent

- The 100 Class 19E Locomotives are summarized below:
 - A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)
 - Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

- c) Based on the original Coal 81 mt model, the acquisition of the 100 Class 19E sustaining locomotives has a net present value (NPV) of R98.49m over 10 years.
- d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R59.1m.
- e) Approved infrastructure investments supporting the project totals R3 974 million.

60 Class 43 Diesels

3. The 60 Class 43 Diesels are summarized below:
4. The 60 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.
- a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current *7 year MDS* capital plan. The diesels in particular will not meet the originally planned delivery.
- b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.
- c) The 60 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.
- d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet though a continuous replenishment of new locomotives.
- e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).
- f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 156	R 1 504					R166	R 1 826
Delivery		60						60

- g) The acquisition of the 60 Class 43 Diesel preserves an NPV of R1 529 m based on the 1064 Locomotive Model.
- h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R59.1m.

Financial Impact to Group

5. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.

6. For no delay the ratios are:

Ratios: Transnet Group - As is	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

7. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

8. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

9. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.
10. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.
11. The program supports the sustainable development of a South African locomotive production industry.
12. Economic benefits include:
 - a) Using idle capacity available in South Africa
 - b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
 - c) Ability to reinstate / retain local jobs as the skills pool already exists

- d) Approximately 2 900 indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility and 1076 (first, second and third tier) at MARS with further jobs retained in downstream enterprises

PROJECT RISKS

13. Both projects face several risks that could affect their overall economic viability:
14. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with CSDP conditions.
15. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.
16. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.
17. Exchange Rate Fluctuations:
 - a) For the 100 Class 19E confined to MARS, the Yen / Rand Rate is forecast to be more stable than the Rand / Dollar rate. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
 - b) For the 60 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.
18. Tariffs not being realised:
 - a) For the coal line current FOB prices for RBCT coal are around US\$90 per ton, well below the peak of over US\$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
 - b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.
19. Tariff exposure to commodity downturns:
 - a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
 - b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.
20. **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.
21. Project interdependencies:
 - a) Crucial to the new operations and achieving 81mt on the Coal Export Line with the additional 100 a Class 19E equivalent requires constructing the Ermelo bypass line. This

line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.

- b) An interdependency for the 100 Class 19E locomotives is cascading locomotives to general freight. The 60 Class 43 Diesels do not have other project interdependencies

22. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.



ANNEXURE FC 2



2080

+27832841484

Pls get out of that BoardRoom , thami is coming to talk about 1064 locos, the 160 has been withdrawn so im not sure why you are there?

0

2013-10-21T09:28:34.217+02:00

0

659

2

0

2081

+27832841484

I am out. Was called i thought for the 1064. Was hwre in case you wanted me. They have moved on from 1064. the 100 is coming up very soon - perhaps 10 min.

0

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659

3

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2082

+27832841484

Brian has withdrawn the 160, u can come back to the office.

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2

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2083

+27832841484

Tx. Thami is here.

0

2013-10-21T10:10:32.482+02:00

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659

3

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2084

+27832841484

So what did u talk to BADC about? Im here now and i really dont like confusion!

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2013-10-21T11:20:22.035+02:00

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659

2

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2085

+27832841484

Mrng. What is way fwd with 100 plus 60 pse. Is there anyting to do or research or rewrite. Are there implications for the board agenda for wednesday. Tx .francis

0

2013-10-22T09:05:33.501+02:00

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3

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2086

+27832841484

I believe it remains withdrawn, im now trying to see how we can get lease locomotivea from Queensland. Gce just said to me if i need anyrthing it must be less than a billion if its capital and for a confinement it must be within his authority!

0

2013-10-22T09:11:46.527+02:00

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659

2

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ANNEXURE FC 3





MEMORANDUM

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 25 November October 2013

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 CLASS 19E EQUIVALENT DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 60 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
 - a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
 - b) To approve the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
 - c) To approve the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives.
 - d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the estimated amount of R1 826 m (excluding borrowing costs):
 - e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives:
 - f) Once negotiated to inform the Board of the final price / cost:
 - g) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
 - a) The heavy haul 100 Class 19E locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan
 - b) The 60 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 60 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 60 locomotives

4. The Class 19E dual voltage electric and Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.
5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Class 19E electric locomotives to MARS and extending the current Class 43 Contract with GESAT by 60 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
6. The confinement to MARS and extension of the GE contract is motivated on the basis of urgency.
7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
8. The 60 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
10. The proposed transactions do not increase the risk related to the 1064 tender process.
11. Socio-economic benefits will be realised in line with existing commitments and expectations.
12. The context and arguments are presented as follows:
 - a) History and Status of the TFR Fleet Plan
 - b) Status of the 1064 Procurement
 - c) Impact of the 1064 delay
 - d) MDS Risk Mitigation
 - e) Project Benefits
 - f) Procurement Strategy
 - g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 66 "Extract from Procurement Procedures Manual" refers)

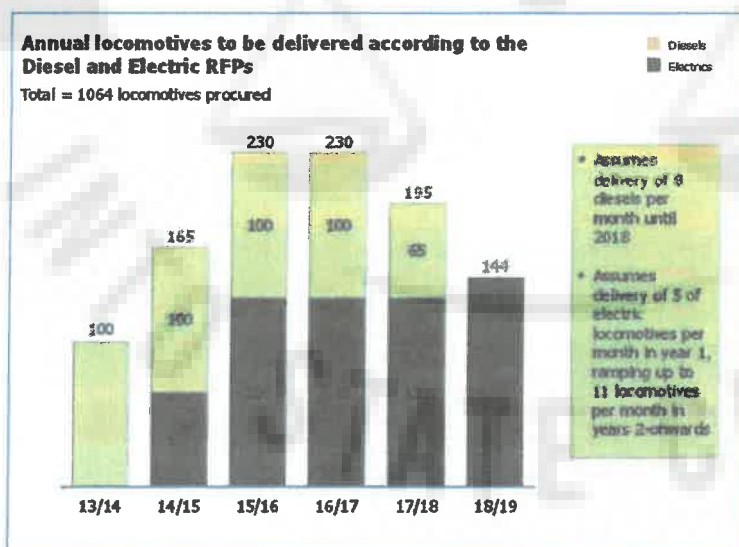
History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August 2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013, post MDS approval.

15. The history and status of the TFR Fleet Plan is summarised in the table below:

Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100 19E)	97.5	<ul style="list-style-type: none"> • Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (off the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		<ul style="list-style-type: none"> • 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		<ul style="list-style-type: none"> • In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the aging fleet and 19 for volume expansion. • GE won the tender, which was confined to three companies, and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	<ul style="list-style-type: none"> • In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		<ul style="list-style-type: none"> • In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	<ul style="list-style-type: none"> • August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
60		<ul style="list-style-type: none"> • 60 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.

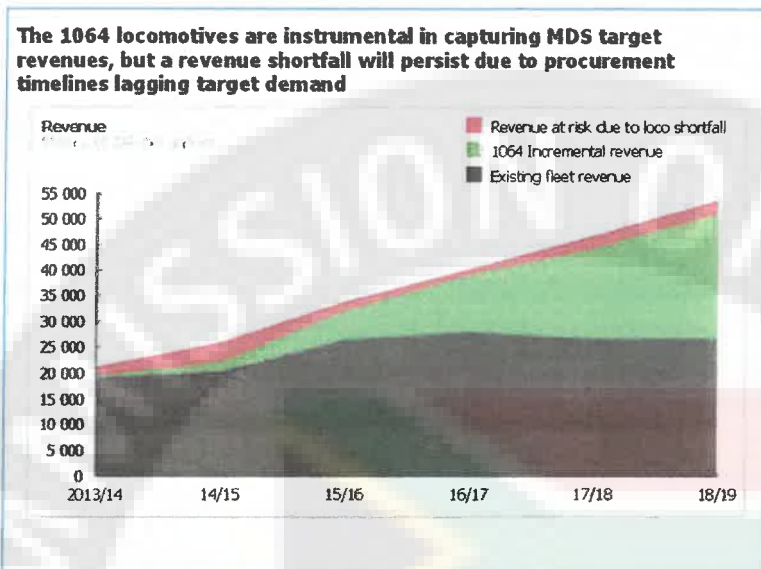
22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Freight Rail Investment Forum.
23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:
 - a) An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and
 - b) Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.
24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.
25. Board approval was obtained in April 2013 and PFMA approval in August 2013.
26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained, and it is expected that adjudication will be finalised by November 2013 and contracts awarded by February 2014.
27. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption. It indicates that at the end of 2014/15 we would be behind by a total of 265 new locomotives which would have a major impact on MDS volumes.



28. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDS.

Impact of the 1064 Delay

29. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.



30. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall		MDS Shortfall Scenario - One Year Delay						
Locomotives		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay		33	138	314	533	763	946	1040
Year Delay		0	57	202	405	638	828	972
Impact								
Locomotives	#	33	81	112	129	125	118	68
Tons	Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue	Rm	363	1286	2610	3639	4073	4188	2584
Capital	Rm	-1725	-1248	-1641	276	381	20	5249
Mtce.	Rm	36	91	132	159	162	160	96
Fuel and Elec.	Rm	67	183	331	440	469	471	290

Shortfall Total		2013/14
One Year Delay		- 16/17
Tons	Mt	30
Revenue	Rm	7 900
Mtce.	Rm	417
Fuel and Elec.	Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total Two Year Delay	2013/14 - 16/17
Tons Mt	56
Revenue Rm	14 743
Mtce. Rm	901
Fuel and Elec. Rm	2052

c) Notes to tables:

- The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.
- The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION

MDS Risk Mitigation

31. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - Tons Protected	2.4	2.4	4.4	7.2	16.44 Tons
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
60 Diesels Tons Protected		3.8	7.9	7.9	19.6 Tons
Income Protected Rm		R 930	R 2 018	R 2 086	R 5 033
Total Tons	2.4	6.2	12.3	15.1	36.04 Tons
Income Protected Rm	R 541	R 1 517	R 3 152	R 3 987	R 9 197

32. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which are the new operating procedures introduced on the Coal Export Line.
33. The prime motivators for this submission are to:
- Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
 - Ensure delivery earlier than the 1064 program by:
 - Confining the procurement of the electric locomotives

- ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Class 19E Dual Voltage Electric Locomotives:

34. The 100 Class 19E locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.
35. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with Class 19E equivalent locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.
36. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the Class 19E locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity.
37. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.
38. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.
39. The 100 Class 19E locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Class 19E type locomotives with significant operational and cost advantages.
 - a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.
40. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Class 19E locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;
 - a) 40 in 2013/14
 - b) 74 end 2015/16
 - c) 120 end 2016/17
41. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.
42. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.

43. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

44. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

45. The 100 Class 19E business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.
46. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.
47. Other aspects more fully covered in the 100 Class 19E Locomotive submission are:
- a) Reliability and Operational efficiency
 - b) Savings on operational expenditure and capitalised maintenance

- c) Energy Savings
- d) Locomotive Fleet Plan and Standardisation and its benefits which include:
 - i. The fleet is standardized with operational interoperability
 - ii. Standard maintenance practices are propagated
 - iii. Reduction in spares holdings and special tools

MDS Shortfall – 60 Class 43 Diesel Locomotives

48. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 60 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream after 2015.
49. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.
50. The 60 locomotives have a potential mitigation of 3.8 – 7.9 mt at an average 8 149 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 033 m (cumulative 2014/15 - 2015/16). The exact allocation of the 60 locomotives will be confirmed at the time of deployment over the following flows:
 - a) Botswana Coal to Bulk Connexion and Richards Bay.
 - i. Potential 1.8mt – 3.8mt
 - ii. Diesels required: 35 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month: 5 957
 - b) Elitheni Coal from Sterkstroom to East London
 - i. Potential 1mt to 2.5mt
 - ii. Diesels required: 15 inclusive of technical allowance
 - iii. Potential GTK's per loco per month: 12 784
 - c) Manganese from Postmasburg to Bloemfontein / Bloemcon
 - i. Potential 1 - 1.6mt mostly from new entrant miners.
 - ii. Diesels required: 10 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month : 7 821

PROJECT BENEFITS

51. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Class 19E and R5 033 m for the 60 Class 43 Diesels over the period 2013/14-2016/17 .
52. Coal Export volumes and income are protected through improved reliability.
53. Sustainability objectives as per the Transnet Sustainability framework are met threefold:
 - a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.
 - b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.

- c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.
- 54. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.
- 55. Benefits specific to the 100 Class 19E include:
 - a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
 - b) The regenerative capability of the new locomotives introduces further energy savings of between 22% and 26%.
 - c) Quantifiable savings in maintenance of the new locomotives over the older series.
 - d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.
- 56. Benefits specific to the 60 Class 34 Diesels include:
 - a) Fuels savings of 8% over the older diesel fleet.
 - b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.
 - c) Standardisation of maintenance regimes with current Class 43 fleet.
 - d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.
 - e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

- 57. The procurement process was carefully considered and was not taken into the 1064 locomotive process. Aspects considered were:
 - a) **Type:** The 100 19E equivalents are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.
 - b) **Delivery:** The 60 diesels are equivalent to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

- 58. The following options were considered and reasoned:
 - a) Go out on tender
 - b) Do Nothing
 - c) Confine / Extend Contract
 - d) Extend current 20E contract for 95 CSR Locomotives
 - e) Leasing

59. **Go out on tender:** With this option, which affords transparency, the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It does not address MDS volumes and causes a 20mt gap from 2014 to 2016.
60. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Base case Rm 2013-14 Corporate Plan	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 690	45 382	53 852	62 146	72 541	81 622
Operating Expenses	20 616	22 640	25 057	28 279	31 434	35 336
EBITDA	16 074	22 742	28 796	33 866	41 107	46 286

One Year Delay Rm 2013-14 Corporate Plan	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 327	44 096	50 512	56 163	64 513	72 480
Operating Expenses	20 514	22 367	24 594	27 680	30 802	34 704
EBITDA	15 813	21 729	25 917	28 483	33 711	37 776

61. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative implications regarding public. For these reasons (and as outlined above) this is not part of the 1064 process and will not impact on that process.
- a) The locomotives are known, meet requirements and prototyping is not required
 - b) Extension of the GE contract is the fastest way to procure the diesel locomotives.
 - c) The MARS facilities are available for immediate production which will result in significant delivery acceleration.
 - d) Both the extension and confinement are acceptable procurement mechanisms per the PPM in this instance.
62. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive and is not intended for heavy haul use on the Coal Export Line. The first delivery is awaited, the locomotive has still to be tested and it is at present unproven. Only after extensive type testing will it be possible to say whether and to what extent it can replicate the heavy haul capabilities of the 19E. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

Leasing: Aurizon in Australia have indicated that they have about 20 locomotives available for lease. However, the newest of these is 30 years old and the quantities are not likely significantly impact volumes. We will view the 20 locomotives and assess their suitability for our network. There is no viable external market for 1064mm dual voltage electric locomotives. South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

63. **Implications:** The 1064 tender is currently under adjudication. It is one of the largest procurement processes within Transnet and while it seeks (inter alia) to launch a South African locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The following implications were considered in adjusting the (diesel locomotive) quantities.

- a) The tenders have closed and asking respondents for revised submissions would delay the process further.
- b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.
- c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

- 64. For reasons of urgency, the confine / extend contract option is the recommended option.
- 65. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

- 66. An extract from the latest approved Procurement Procedures Manual, dated 01 October 2012, stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

- a) **where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.**
 - b) **the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;**
 - c) **for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or**
 - d) **when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."**
- 67. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.
 - a) Item 13 et al covering the "History and Status of the TFR Fleet Plan" and the "History and Status of the 1064 Procurement" demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.

- b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.
- c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.
68. Addressing the urgency:
- a) The locomotives requested have been through the teething phase with most initial manufacturing and operational faults rectified. Present models are operating optimally and have exceeded their design parameters
 - b) Re-starting of these production lines will be quick; the designs are finalised so delivery lead times will be kept to a minimum and set up costs reduced.
 - c) Crew (drivers and assistants) are already trained on these locomotives.
 - d) Confinement will realize the quickest delivery and existing facilities previously used for the assembly of the 110 x Class 19E.
69. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:
- a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be largely identical with those already supplied as:
 - i. In 2009, Transnet Freight Rail (TFR) entered into a contract with Mitsui & Co African Railway Solutions (PTY) LTD (MARS for the procurement of 110 new Class 19E electric locomotives for the Coal Export Line; TFR took delivery of the last locomotive in August 2012. MARS are also delivering the Class 15E locomotives for the Ore Export line and the last one is due to come of the factory line in September 2013:
 - c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 15 months before production commences.
 - d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.
After many years these standards have now changed and TFR is evaluating the impact of these changes.
 - ii. Maintenance standardisation addresses:
 - Reduced spares holdings and simplified and standardised inventory.
 - Standardised tools and diagnostic instruments serving a common fleet
 - Unified training and for maintenance staff.

- Simplified maintenance practises resulting in shorter Mean Time to Repair.
 - iii. TE is currently maintaining and repairing the Class 19E Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.
70. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:
- a) the Class 19E locomotives are performing well and have proven to be both efficient and reliable and
 - b) the Class 19E is a modern locomotive and the proposed 100 locomotives will be an extension of the current design and no prototyping or type testing is required conservatively saving 15 months or more and
 - c) the limited quantities of each type of locomotive:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 19E locomotives.

71. From a social-economic perspective the following jobs will be retained in assembly facilities:
- a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises
 - b) Approximately 400 **jobs** will be created over the period at the Union Carriage Works assembly facility and further jobs will be retained in downstream enterprises
 - c) Toshiba has indicated its serious intent in building a **traction motor assembly facility** in SA and this could be expedited through the SD obligations that would be linked to this contract.
72. The Japanese Yen has weakened marginally against the South African Rand. The Rand in turn has weakened significantly against the US Dollar. The foreign component of the original 110 x Class 19E contract was 40% Yen based and a contract on similar terms would be considerably cheaper than a new US Dollar based contract.
73. The original 110 Class 19E contract was entered into in 2006. The SD terms and conditions required today are significantly different and more stringent. This calls for a new procurement event via a confined tender.
74. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to MARS Railway Solutions, a subsidiary of Japan's Mitsui & Co Limited.

Contract Extension with GESAT for 60 Class 43 Diesels

75. The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:
- a) the basis of urgency (a) as outlined above
 - b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).
76. The project is motivated on the basis of Item 66 Para (a) where a genuine unforeseeable urgency has arisen. The arguments are per Items 67 and 68 above are also applicable to the 60 Class 43 Diesels.
77. The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.5.3, allows for a contract extension. In this instance the request is for a material contract

amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.

78. Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.

79. Addressing the urgency:

a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011, through a confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.

b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.

c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.

d) No prototyping or type testing is required.

80. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:

a) Locomotives are highly specialised with limited suppliers worldwide.

b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.

c) Transnet would incur wasted time and money in approaching the market as:

- i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
- ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.

d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.

- i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.

After many years these standards have now changed and TFR is evaluating the impact of these changes.

- ii. Maintenance standardisation addresses:

- Reduced spares holdings and simplified and standardised inventory.
- Standardised tools and diagnostic instruments serving a common fleet
- Unified training and for maintenance staff.

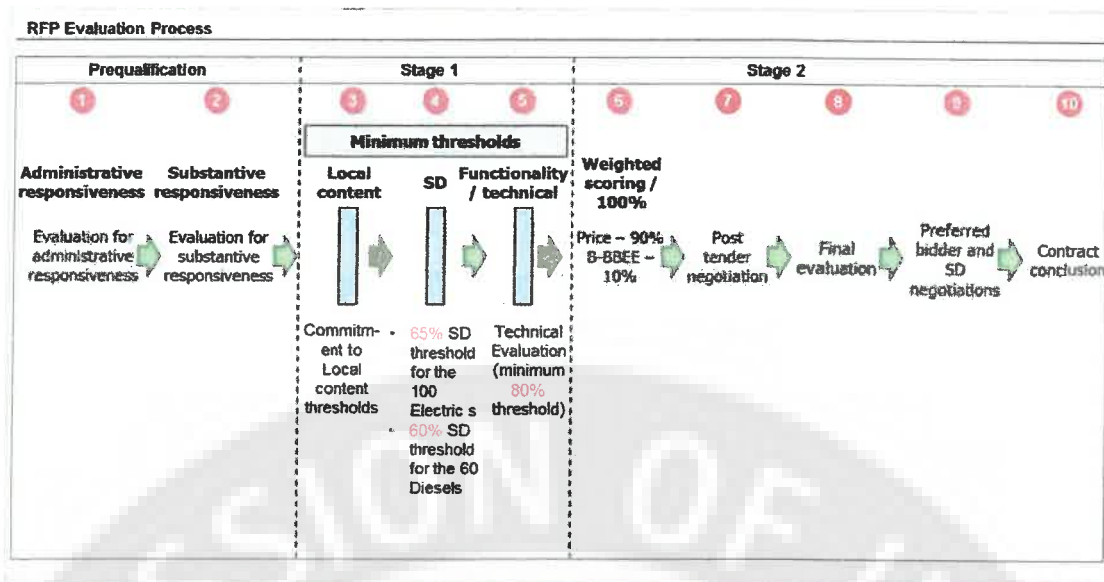
- Simplified maintenance practises resulting in shorter Mean Time to Repair.
 - iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.
81. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:
- a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and
 - b) the proposed 60 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and
 - c) the limited quantities required:
- It is submitted that it is not in the best interest of Transnet to solicit other offers for the 60 Class 43 diesel locomotives.
82. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.
83. The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead. To breakeven point to set up new facilities is marginal for the 100 Class 19E but mitigates against new facilities for the 60 Class 43 diesels.
84. Given that a contract is already in place and that the additional 60 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

85. Extend the current contract with General Electric South African Technologies (GESAT) for 60 Class 43 Diesel Locomotives.
86. Confine and award to Mitsui & Co African Railway Solutions (PTY) LTD (MARS) for 100 Class 19E locomotives.
87. The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

88. The Request for Proposals (RFP's) for the confinement to Mars and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below. The normal open tender process would follow the evaluation methodology indicated below.



89. The Evaluation Methodology for an open tender comprises the following steps:

- 1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders
- 2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met
- 3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA
- 4) **SD thresholds** – the SD thresholds of 65% and 60% set for Electric and Diesel locomotives respectively must be met for bidders to proceed to the next step of the evaluation.
- 5) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.
- 6) A **weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used determine final award
- 7) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers
- 8) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM
- 9) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future)
- 10) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.

90. The above process is modified for the proposed confinement and extension in that:

- a) Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.

- b) Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met
- c) Local content threshold must be met
- d) SD threshold must be met
- e) Technical evaluation (5) is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Class 19E's) for incorporation.
- f) Weighted Scoring Approach (6) and
- g) Final Evaluation (8) is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

91. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.
92. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1) are compulsory and are elaborated in following table:

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

93. In addition, the progressive Local Content for Designated Components (Section 3 (3.2) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

94. The Supplier Development targets are set out in the table below. They are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)	
Category	Weighting
Investment in plant – bidders monetary commitment to investment in plant and equipment	10%
Downstream procurement – bidders commitment to supporting 2 nd , 3 rd tier suppliers, etc.	15%
Skills development – supplier's commitment to skills development (number of people and monetary)	20%
Job creation / preservation – supplier's commitment to number of jobs maintained/created	30%
Small business promotion – supplier's commitment to usage of small businesses (monetary)	10%
ED/SD – bidders commitment to SD initiatives and ED development	15%
Total & Threshold > 65% for Electric and > 60% for Diesels	100%

Award Conditions – 100 Class 19E Equivalent

95. Approval to award the business to MARS is requested subject to SD compliance with the following:
- Local content meeting or exceeding 60% by value
 - Compliance with **new** SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco.

Award Conditions – 60 Class 43 Diesels

96. Approval to award the business to GESAT is requested subject to SD compliance with the following:
- Local content meeting or exceeding 55% by value
 - Compliance with **new** SD commitments with a minimum of 60% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco.

FINANCIAL AND BUDGET IMPLICATIONS

97. The financial motivation and budget implications for the 100 Class 19E and 60 Class 43 Diesels are discussed in detail in the respective submissions.

100 Class 19E Equivalent

98. The 100 Class 19E Locomotives are summarized below:
- A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)
 - Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

- c) Based on the original Coal 81 mt model, the acquisition of the 100 Class 19E sustaining locomotives has a net present value (NPV) of R98.49m over 10 years.
- d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R59.1m.
- e) Approved infrastructure investments supporting the project totals R3 974 million.
- f) The cost is estimated and therefore a final price can only be given upon negotiation which is subject to Board approval.

60 Class 43 Diesels

99. The 60 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.
100. The 60 Class 43 Diesels are summarized below:
- The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current *7 year MDS* capital plan. The diesels in particular will not meet the originally planned delivery.
 - The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.
 - The 60 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.
 - The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet through a continuous replenishment of new locomotives.
 - A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).
 - Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 156	R 1 504					R166	R 1 826
Delivery		60						60

- The acquisition of the 60 Class 43 Diesel preserves an NPV of R1 529 m based on the 1064 Locomotive Model.
- The PV of the Total Cost of Ownership using the 1064 Locomotive model is R59.1m.
- The cost is estimated and therefore a final price can only be given upon negotiation which is subject to Board approval.

Financial Impact to Group

101. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.
102. For no delay the ratios are:

Ratios: Transnet Group - As is	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

103. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

104. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

105. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.
106. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.
107. The program supports the sustainable development of a South African locomotive production industry.
108. Economic benefits include:
 - a) Using idle capacity available in South Africa
 - b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
 - c) Ability to reinstate / retain local jobs as the skills pool already exists

- d) Approximately 2 900 indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility and 1076 (first, second and third tier) at MARS with further jobs retained in downstream enterprises

PROJECT RISKS

109. Both projects face several risks that could affect their overall economic viability:
110. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with CSDP conditions.
111. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.
112. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.
113. Exchange Rate Fluctuations:
- a) For the 100 Class 19E confined to MARS, the Yen / Rand Rate is forecast to be more stable than the Rand / Dollar rate. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
 - b) For the 60 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.
114. Tariffs not being realised:
- a) For the coal line current FOB prices for RBCT coal are around US\$90 per ton, well below the peak of over US\$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
 - b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.
115. Tariff exposure to commodity downturns:
- a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
 - b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.
116. **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.
117. Project interdependencies:
- a) Crucial to the new operations and achieving 81mt on the Coal Export Line with the additional 100 a Class 19E equivalent requires constructing the Ermelo bypass line. This

line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.

- b) An interdependency for the 100 Class 19E locomotives is cascading locomotives to general freight. The 60 Class 43 Diesels do not have other project interdependencies

118. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.

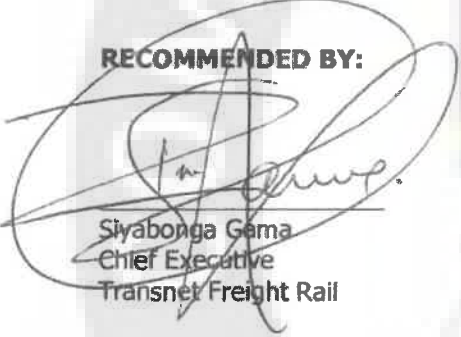


RECOMMENDATION:

119. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

- a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
- b) To approve the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
- c) To approve the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives.
- d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the estimated amount of R1 826 m (excluding borrowing costs):
- e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives:
- f) Once negotiated to inform the Board of the final price / cost.
- g) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

RECOMMENDED BY:


Siyabonga Gema
Chief Executive
Transnet Freight Rail

Date:

2013-11-25

RECOMMENDED BY:

Gary Pita
Group Chief Supply Chain Officer
Transnet SOC

Date:

RECOMMENDED BY:

Mohammed Mahomedy
Group General Manager
Capital Integration
Transnet SOC

Date:

RECOMMENDED BY:

Anoj Singh
Group General Manager
Group Chief Financial Officer
Transnet SOC

Date:

RECOMMENDED BY:

Brian Molefe
Group Chief Executive
Transnet SOC

Date:

ANNEXURE FC 4



SMS 12 Jan 2014

2597

+27824442796

Hi Francis and JD, group has added that we find R500m additional revenue for next year, they also want us to add 1000 wagons in Capex for TE, ive suggested that we would need 80, not 60, class 43 diesels...they are asking that we table a business case for 80 , but it needs to be signed off by 10:00 on monday in order for it to be on BADC pack for next friday's meeting 24 January... What miracle can you work for me ?...siya Hi. Copy for info.

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Siya, I got your note on 20 more 43 class and 1000 more new build wagons from Francis. I just need some direction on this and the Capex deferral and cut request. 1) is the target a guideline or cast in stone? 2) what value did TE request for new builds? Tfr currently has R 2 billion in 2015. Does the 1000 take this to R 2.7 billion 3) to effect the lowering of capital other TE project will require trimming, may we do. 4) may we play a finance trimming post year 1 ie cut copex on all 3 programmes to optimize and scrub later. 4) is the aggressive loco deliver to remain unchanged? 5) are all the mega projects unchanged, ie does iron ore remain flat at 60 or does Tfr ramp to 70? Rgds Johan cc Nomfuyo, Willem,, Kgoadi, Natasia, Zunaid, JD, francis

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ANNEXURE FC 5



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB <francis.callard@transnet.net>
Sent: 20 May 2014 10:14
To: Francis Callard Transnet Freight Rail JHB
Subject: Fw: 100 & 60 Locomotives PDF version
Attachments: BADC 100 80 Revised V14 0120.pdf; 100 & 60 Locomotives PDF version.eml

On Mon Jan 20 10:21:47 SAST 2014, "Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net> wrote:

----- Original Message -----

From:"Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net>
Sent:Mon Jan 20 10:21:47 SAST 2014
To:"Siyabonga Gama Transnet Freight Rail JHB" <Gama.Siyabonga@transnet.net>
Subject:100 & 60 Locomotives PDF version

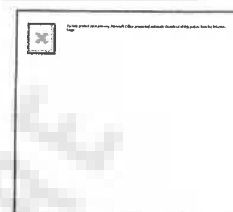
Dear Siya

A PDF version of the business case. I have sent the word version to Pieter and Theo. Theo will print and bring you a hard copy.

We are writing up the one pager for the additional tons and revenue. Will send in about an hour.

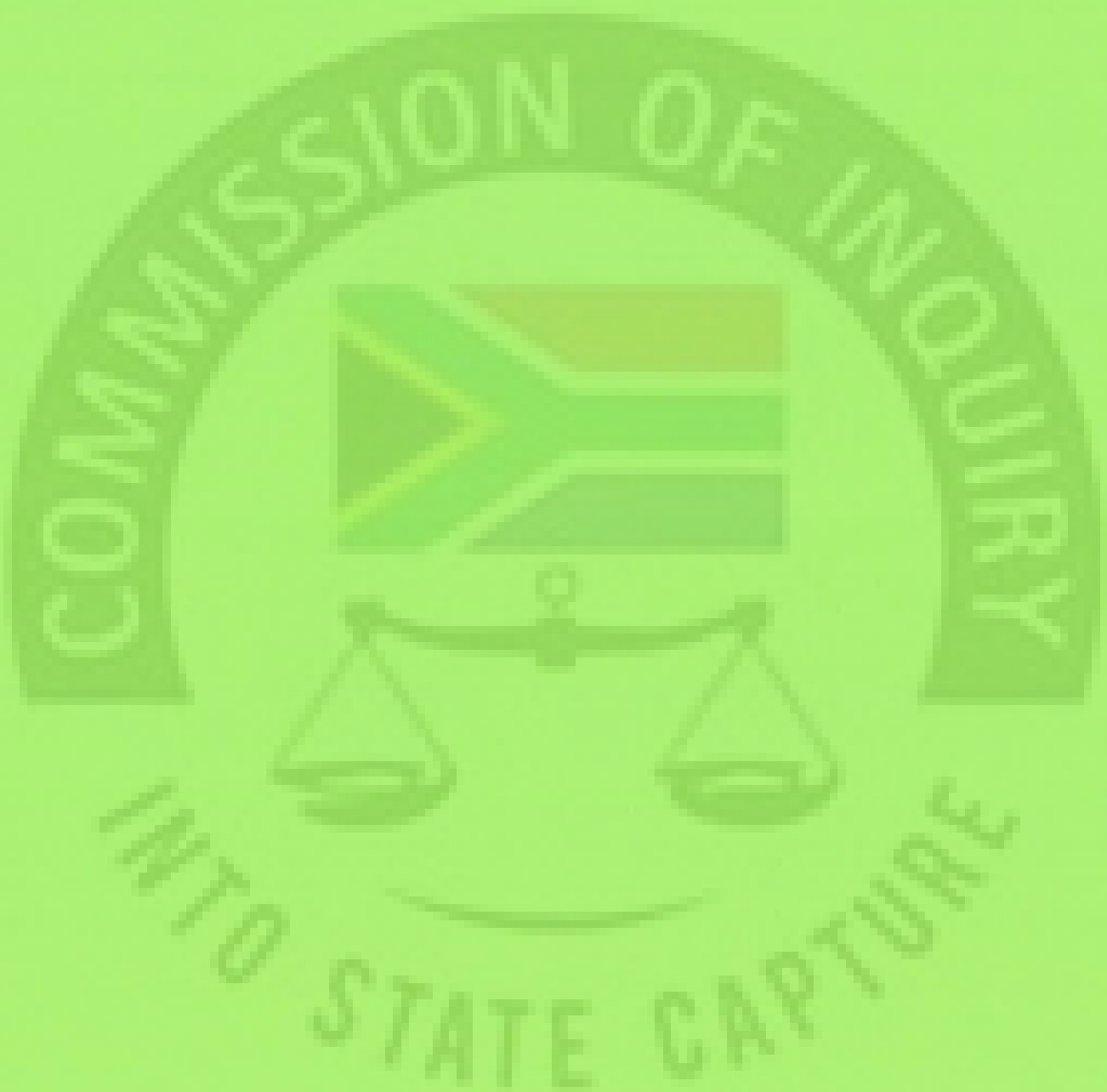
Best

Francis



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ANNEXURE FC 5A





MEMORANDUM

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 20 January 2015

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 CLASS 19E EQUIVALENT DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 80 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
 - a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
 - b) To approve the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
 - c) To approve the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives.
 - d) To approve the investment and change in the fleet plan to procure of 80 Class 43 diesel locomotives for General Freight in the estimated amount of R2 435 m (excluding borrowing costs):
 - e) To approve an extension of the current Class 43 diesel locomotives contract for 80 additional locomotives:
 - f) Once negotiated to inform the Board of the final price / cost:
 - g) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
 - a) The heavy haul 100 Class 19E locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan
 - b) The 80 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 80 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 80 locomotives

4. The Class 19E dual voltage electric and Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.
5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Class 19E electric locomotives to MARS and extending the current Class 43 Contract with GESAT by 80 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
6. The confinement to MARS and extension of the GE contract is motivated on the basis of urgency.
7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
8. The 80 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 80 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
10. The proposed transactions do not increase the risk related to the 1064 tender process.
11. Socio-economic benefits will be realised in line with existing commitments and expectations.
12. The context and arguments are presented as follows:
 - a) History and Status of the TFR Fleet Plan
 - b) Status of the 1064 Procurement
 - c) Impact of the 1064 delay
 - d) MDS Risk Mitigation
 - e) Project Benefits
 - f) Procurement Strategy
 - g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 66 "Extract from Procurement Procedures Manual" refers)

History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August 2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013, post MDS approval.

15. The history and status of the TFR Fleet Plan is summarised in the table below:

Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100 19E)	97.5	<ul style="list-style-type: none"> • Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (of the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		<ul style="list-style-type: none"> • 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		<ul style="list-style-type: none"> • In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the ageing fleet and 19 for volume expansion. • The tender, which was confined to three companies, was won by GE and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	<ul style="list-style-type: none"> • In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		<ul style="list-style-type: none"> • In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	<ul style="list-style-type: none"> • August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved (95+43), the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
80		<ul style="list-style-type: none"> • 80 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.












Loco Fleet History and Plan	Tons	Comment and Update
Ore Export Line (30 ton axle)		
44 <u>32</u> 76	44 mt 60 mt	<ul style="list-style-type: none"> • 44 15E bought open tender (Toshiba / Mitsui) to replace / supplement existing 9E locomotives and Class 34 GE Diesels with an option for a further 18 locomotives. • The option to extend by 18 locomotives was not exercised. • A new confined contract was entered into with Mitsui for a total of 32 locomotives to take the Ore Export Line to 60 mt. This confinement was motivated on standardisation of the fleet. • ~ 110 Class 34 GE diesels returned to General Freight and replaced with 30 Class 43 GE. • Potential General Freight traffic may materialise from 2013/14 on the Ore Export line and 4 9E locomotives may be retained for this traffic.
23 15E and 3 Diesels	80 mt	<ul style="list-style-type: none"> • The volumes are not likely to materialise in the 7 year MDS program. The FEL feasibility study is on hold and there is currently no commitment to the increased volumes. • The locomotives are also put on hold. • The 15E production line has shut down. As and when required, the procurement options will be evaluated against standardisation, cost and interoperability. • Diesels, if required, will be provided from the GFB fleet

16. The essential points relating to this proposal are:
- a) The 100 Class 19E locomotives are for the coal line and were always part of the TFR locomotive fleet plan. See Para 34 and following. They release locomotives that can be used on GFB for the year that the 1064 program is delayed.
 - b) The 80 Class 43 diesel locomotives are not part of the 1064 locomotive program.
 - i. They are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 80 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
17. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances and this flexibility has been built into the tender and will be carried forward in the ultimate contracts.
18. The rationale for the 100 Class 19E and 80 Class 43 Diesel not being part of the 1064 locomotive process are covered under the Procurement Strategy (Para 57.a) and following).
19. The future acquisitions for the expansion of the Coal Export line and the Ore Export line will depend on market conditions and development of the full supply chain across all stakeholders.

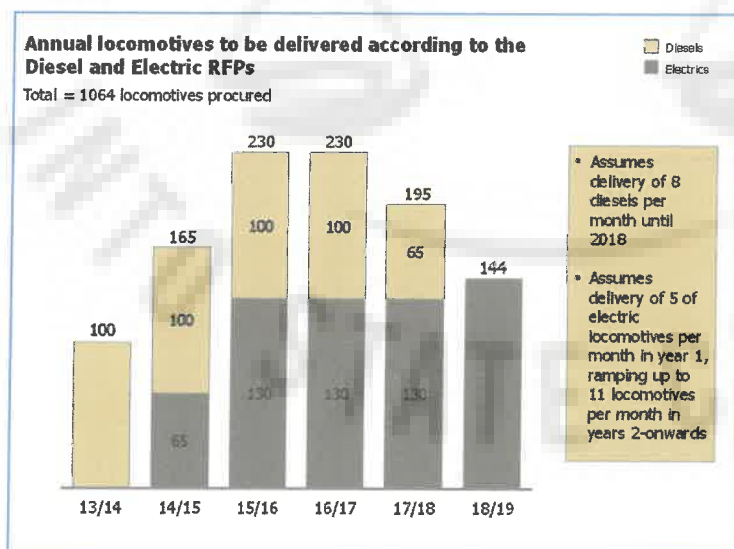
History and Status of the 1064 Procurement

20. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and synchronised approach across locomotives, wagons, infrastructure and personnel and these aspects were covered in the 1064 business case submission. Currently locomotive availability is the major constraint to achieving MDS volumes.

21. The history of the 1064 procurement is depicted in the exhibit below.

	 Presentation 7/6	 Approved 9/2 + 43	 Presentation 7/6 to 1064	 1064 BC to FHIC	 1064 Timeline, Open	 1064 Timeline, Close	 FHIC Approval	 Approval	 Review	 Final Prototype	 Final Prototype																		
	2011/12			2012/13			2013/14			2014/15			2015/16			16/17	17/18	18/19	19/20	20/21	Total								
1064	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar						
Current GF Fleet Runout	1730			1748			1888			1890			1864			1832	1776	1686	1550										
March 2012							100			165			230			230	195	144										1064	
Most likely	Considering current state a two year delay is probable																												
95 CSR							10			85						165	230	230	195	144							1064		

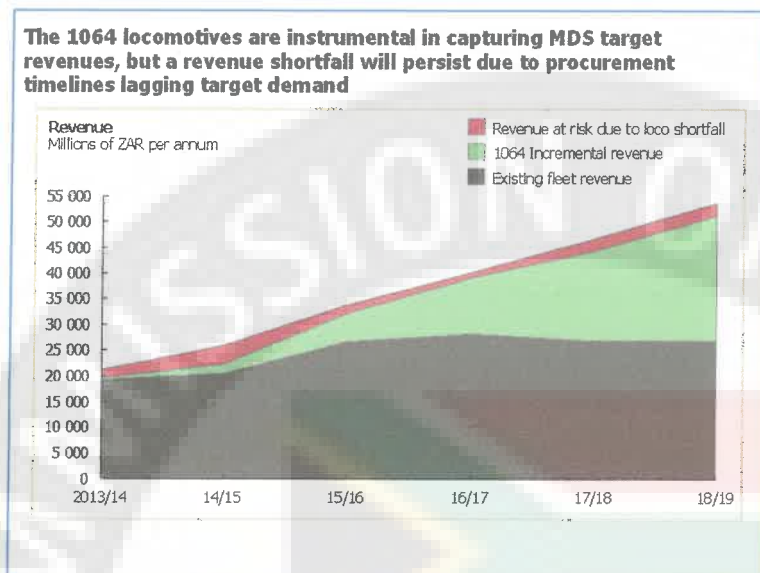
22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Freight Rail Investment Forum.
23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:
- An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and
 - Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.
24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.
25. Board approval was obtained in April 2013 and PFMA approval in August 2013.
26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained, and it is expected that adjudication will be finalised by November 2013 and contracts awarded by February 2014.
27. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption. It indicates that at the end of 2014/15 we would be behind by a total of 265 new locomotives which would have a major impact on MDS volumes.



28. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDS.

Impact of the 1064 Delay

29. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.



30. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall		MDS Shortfall Scenario - One Year Delay						
Locomotives		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay		33	138	314	533	763	946	1040
Year Delay		0	57	202	405	638	828	972
Impact								
Locomotives	#	33	81	112	129	125	118	68
Tons	Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue	Rm	363	1286	2610	3639	4073	4188	2584
Capital	Rm	-1725	-1248	-1641	276	381	20	5249
Mtce.	Rm	36	91	132	159	162	160	96
Fuel and Elec.	Rm	67	183	331	440	469	471	290

Shortfall Total		2013/14
One Year Delay		- 16/17
Tons	Mt	30
Revenue	Rm	7 900
Mtce.	Rm	417
Fuel and Elec.	Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total Two Year Delay	2013/14 - 16/17
Tons Mt	56
Revenue Rm	14 743
Mtce. Rm	901
Fuel and Elec. Rm	2052

c) Notes to tables:

- The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.
- The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION**MDS Risk Mitigation**

31. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - MTons Protected	2.4	2.4	4.4	7.2	16.44
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
80 Diesels MTons Protected		4.4	9.1	9.1	22.6
Income Protected Rm		R 1 077	R 2 324	R 2 403	R 5 803
Total Tons	2.4	6.8	13.54	16.3	39.04
Income Protected Rm	R 541	R 1 664	R 3 458	R 4 304	R 9 967

32. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which is the new operating procedure introduced on the Coal Export Line.
33. The prime motivators for this submission are to:
- Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
 - Ensure delivery earlier than the 1064 program by:

- i. Confining the procurement of the electric locomotives
- ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Class 19E Dual Voltage Electric Locomotives:

34. The 100 Class 19E locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.
35. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with Class 19E equivalent locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.
36. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the Class 19E locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity.
37. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.
38. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.
39. The 100 Class 19E locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Class 19E type locomotives with significant operational and cost advantages.
 - a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.
40. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Class 19E locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;
 - a) 40 in 2013/14
 - b) 74 end 2015/16
 - c) 120 end 2016/17
41. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.

42. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.
43. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

44. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

45. The 100 Class 19E business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.
46. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.

47. Other aspects more fully covered in the 100 Class 19E Locomotive submission are:
- a) Reliability and Operational efficiency
 - b) Savings on operational expenditure and capitalised maintenance
 - c) Energy Savings
 - d) Locomotive Fleet Plan and Standardisation and its benefits which include:
 - i. The fleet is standardized with operational interoperability
 - ii. Standard maintenance practices are propagated
 - iii. Reduction in spares holdings and special tools

MDS Shortfall – 80 Class 43 Diesel Locomotives

48. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 80 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream after 2015.
49. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.
50. The 80 locomotives have a potential mitigation of 4.4 – 9.1 mt at an average 7 639 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 803 m (cumulative 2014/15 - 2015/16). The exact allocation of the 80 locomotives will be confirmed at the time of deployment over the following flows:
- a) Botswana Coal to Bulk Connexion and Richards Bay.
 - i. Potential 1.8mt – 3.8mt
 - ii. Diesels required: 35 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month: 5 957
 - b) Elitheni Coal from Sterkstroom to East London
 - i. Potential 1mt to 2.5mt
 - ii. Diesels required: 15 inclusive of technical allowance
 - iii. Potential GTK's per loco per month: 12 784
 - c) Manganese from Postmasburg to Bloemfontein / Bloemcon
 - i. Potential 1 - 1.6mt mostly from new entrant miners.
 - ii. Diesels required: 10 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month : 7 821
 - d) Coal Line: Stabilise the Coal Export Line and enable redeploying older diesels to areas including but not limited to those mentioned above as well as Polokwane.

PROJECT BENEFITS

51. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Class 19E and R5 803 m for the 80 Class 43 Diesels over the period 2013/14-2016/17 .
52. Coal Export volumes and income are protected through improved reliability.
53. Sustainability objectives as per the Transnet Sustainability framework are met threefold:

- a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.
 - b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.
 - c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.
54. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.
55. Benefits specific to the 100 Class 19E include:
- a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
 - b) The regenerative capability of the new locomotives introduces further energy savings of between 22% and 26%.
 - c) Quantifiable savings in maintenance of the new locomotives over the older series.
 - d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.
56. Benefits specific to the 80 Class 34 Diesels include:
- a) Fuels savings of 8% over the older diesel fleet.
 - b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.
 - c) Standardisation of maintenance regimes with current Class 43 fleet.
 - d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.
 - e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.
 - f) The locomotives will be fitted with Distributed Power capability enabling longer trains and improved operational capability.
 - g) Mitigating the risk of instability in the Eskom power supply.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

57. The procurement process was carefully considered and was not taken into the 1064 locomotive process. Aspects considered were:
- a) **Type:** The 100 19E equivalents are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.
 - b) **Delivery:** The 80 diesels are equivalent to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

58. The following options were considered and reasoned:

- a) Go out on tender
- b) Do Nothing
- c) Confine / Extend Contract
- d) Extend current 20E contract for 95 CSR Locomotives
- e) Leasing

59. **Go out on tender:** With this option, which affords transparency, the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It does not address MDS volumes and causes a 20mt gap from 2014 to 2016.

60. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Base case Rm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 690	45 382	53 852	62 146	72 541	81 622
Operating Expenses	20 616	22 640	25 057	28 279	31 434	35 336
EBITDA	16 074	22 742	28 796	33 866	41 107	46 286

One Year Delay Rm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 327	44 096	50 512	56 163	64 513	72 480
Operating Expenses	20 514	22 367	24 594	27 680	30 802	34 704
EBITDA	15 813	21 729	25 917	28 483	33 711	37 776

61. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative public implications. For the urgency already outlined and the reasons below this is not part of the 1064 process and will not impact on that process.

- a) The locomotives are known, meet requirements and prototyping is not required
- b) Extension of the GE contract is the fastest way to procure the diesel locomotives.
- c) The MARS facilities are available for immediate production which will result in significant delivery acceleration.
- d) Both the extension and confinement are acceptable procurement mechanisms per the PPM in this instance.

62. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive and is not intended for heavy haul use on the Coal Export Line. The first delivery is awaited, the locomotive has still to be tested and it is at present unproven. Only after extensive type testing will it be possible to say whether and to what extent it can replicate the heavy haul capabilities of the 19E. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

Leasing: Aurizon in Australia have indicated that they have about 20 locomotives available for lease. However, the newest of these is 30 years old and the quantities are not likely significantly impact volumes. We will view the 20 locomotives and assess their suitability for our network. There is no viable external market for 1064mm dual voltage electric locomotives.

South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

63. **Implications:** The 1064 tender is currently under adjudication. It is one of the largest procurement processes within Transnet and while it seeks (inter alia) to launch a South African locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The following implications were considered in adjusting the (diesel locomotive) quantities.
- a) The tenders have closed and asking respondents for revised submissions would delay the process further.
 - b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.
 - c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

64. For reasons of urgency, the confine / extend contract option is the recommended option.
65. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

66. An extract from the latest approved Procurement Procedures Manual, dated 01 October 2012, stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

- a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.
- b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;
- c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or
- d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods

or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time.”

67. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.
- a) Item 13 et al covering the “History and Status of the TFR Fleet Plan” and the “History and Status of the 1064 Procurement” demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.
 - b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.
 - c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.
68. Addressing the urgency:
- a) The locomotives requested have been through the teething phase with most initial manufacturing and operational faults rectified. Present models are operating optimally and have exceeded their design parameters
 - b) Re-starting of these production lines will be quick; the designs are finalised so delivery lead times will be kept to a minimum and set up costs reduced.
 - c) Crew (drivers and assistants) are already trained on these locomotives.
 - d) Confinement will realize the quickest delivery and existing facilities previously used for the assembly of the 110 x Class 19E.
69. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:
- a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be largely identical with those already supplied as:
 - i. In 2009, Transnet Freight Rail (TFR) entered into a contract with Mitsui & Co African Railway Solutions (PTY) LTD (MARS for the procurement of 110 new Class 19E electric locomotives for the Coal Export Line; TFR took delivery of the last locomotive in August 2012. MARS are also delivering the Class 15E locomotives for the Ore Export line and the last one is due to come of the factory line in September 2013:
 - c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 15 months before production commences.
 - d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.

After many years these standards have now changed and TFR is evaluating the impact of these changes.

ii. Maintenance standardisation addresses:

- Reduced spares holdings and simplified and standardised inventory.
- Standardised tools and diagnostic instruments serving a common fleet
- Unified training and for maintenance staff.
- Simplified maintenance practises resulting in shorter Mean Time to Repair.

iii. TE is currently maintaining and repairing the Class 19E Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.

70. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

- a) the Class 19E locomotives are performing well and have proven to be both efficient and reliable and
- b) the Class 19E is a modern locomotive and the proposed 100 locomotives will be an extension of the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities of each type of locomotive:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 19E locomotives.

71. From a social-economic perspective the following jobs will be retained in assembly facilities:

- a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises
- b) Approximately 400 **jobs** will be created over the period at the Union Carriage Works assembly facility and further jobs will be retained in downstream enterprises
- c) Toshiba has indicated its serious intent in building a **traction motor assembly facility** in SA and this could be expedited through the SD obligations that would be linked to this contract.

72. The Japanese Yen has weakened marginally against the South African Rand. The Rand in turn has weakened significantly against the US Dollar. The foreign component of the original 110 x Class 19E contract was 40% Yen based and a contract on similar terms would be considerably cheaper than a new US Dollar based contract.

73. The original 110 Class 19E contract was entered into in 2006. The SD terms and conditions required today are significantly different and more stringent. This calls for a new procurement event via a confined tender.

74. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to MARS Railway Solutions, a subsidiary of Japan's Mitsui & Co Limited.

Contract Extension with GESAT for 80 Class 43 Diesels

75. The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:
 - a) the basis of urgency (a) as outlined above
 - b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).
76. The project is motivated on the basis of Item 66 Para (a) where a genuine unforeseeable urgency has arisen. The arguments are per Items 67 and 68 above are also applicable to the 80 Class 43 Diesels.
77. The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.5.3, allows for a contract extension. In this instance the request is for a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.
78. Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.
79. Addressing the urgency:
 - a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011, through a confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.
 - b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.
 - c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.
 - d) No prototyping or type testing is required.
80. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:
 - a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.
 - c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.

d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.

i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.

After many years these standards have now changed and TFR is evaluating the impact of these changes.

ii. Maintenance standardisation addresses:

- Reduced spares holdings and simplified and standardised inventory.
- Standardised tools and diagnostic instruments serving a common fleet
- Unified training and for maintenance staff.
- Simplified maintenance practises resulting in shorter Mean Time to Repair.

iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.

81. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

- a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and
- b) the proposed 80 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities required:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 80 Class 43 diesel locomotives.

82. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.

83. The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead. To breakeven point to set up new facilities is marginal for the 100 Class 19E but mitigates against new facilities for the 80 Class 43 diesels.

84. Given that a contract is already in place and that the additional 80 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

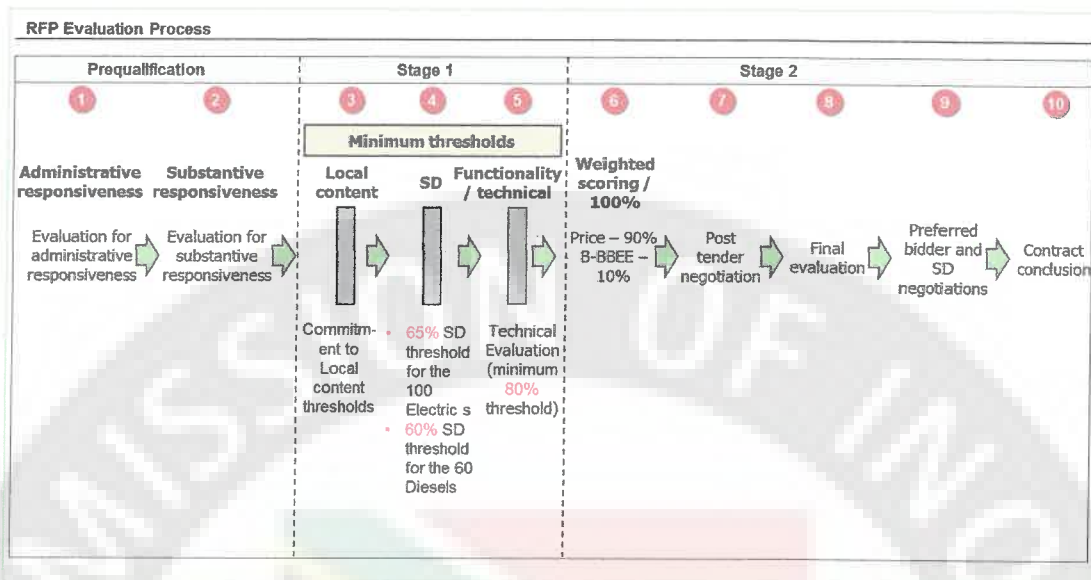
85. Extend the current contract with General Electric South African Technologies (GESAT) for 80 Class 43 Diesel Locomotives.

86. Confine and award to Mitsui & Co African Railway Solutions (PTY) LTD (MARS) for 100 Class 19E locomotives.

87. The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

88. The Request for Proposals (RFP's) for the confinement to Mars and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below. The normal open tender process would follow the evaluation methodology indicated below.



89. The Evaluation Methodology for an open tender comprises the following steps:

- 1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders
- 2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met
- 3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA
- 4) **SD thresholds** – the SD thresholds of 65% and 60% set for Electric and Diesel locomotives respectively must be met for bidders to proceed to the next step of the evaluation.
- 5) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.
- 6) A **weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used determine final award
- 7) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers
- 8) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM
- 9) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future)

- 10) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.
90. The above process is modified for the proposed confinement and extension in that:
- Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.
 - Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met
 - Local content threshold must be met
 - SD threshold must be met
 - Technical evaluation (5) is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Class 19E's) for incorporation.
 - Weighted Scoring Approach (6) and
 - Final Evaluation (8) is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

91. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.
92. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1)) are compulsory and are elaborated in following table:

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

93. In addition, the progressive Local Content for Designated Components (Section 3 (3.2)) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

94. The Supplier Development targets are set out in the table below. They are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)	
Category	Weighting
Investment in plant – bidders monetary commitment to investment in plant and equipment	10%
Downstream procurement – bidders commitment to supporting 2 nd , 3 rd tier suppliers, etc.	15%
Skills development – supplier's commitment to skills development (number of people and monetary)	20%
Job creation / preservation – supplier's commitment to number of jobs maintained/created	30%
Small business promotion – supplier's commitment to usage of small businesses (monetary)	10%
ED/SD – bidders commitment to SD initiatives and ED development	15%
Total & Threshold > 65% for Electric and > 60% for Diesels	100%

Award Conditions – 100 Class 19E Equivalent

95. Approval to award the business to MARS is requested subject to SD compliance with the following:
- Local content meeting or exceeding 60% by value
 - Compliance with **new** SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco.

Award Conditions – 80 Class 43 Diesels

96. Approval to award the business to GESAT is requested subject to SD compliance with the following:

- a) Local content meeting or exceeding 55% by value
- b) Compliance with **new** SD commitments with a minimum of 60% as measured in the SD Value Summary which forms part of the RFP
- c) Transnet will also request a price range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco.

FINANCIAL AND BUDGET IMPLICATIONS

97. The financial motivation and budget implications for the 100 Class 19E and 80 Class 43 Diesels are discussed in detail in the respective submissions.

100 Class 19E Equivalent

98. The 100 Class 19E Locomotives are summarized below:

- a) A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)
- b) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

- c) Based on the original Coal 81 mt model, the acquisition of the 100 Class 19E sustaining locomotives has a net present value (NPV) of R98.49m over 10 years.
- d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R59.1m.
- e) Approved infrastructure investments supporting the project totals R3 974 million.
- f) The cost is estimated and therefore a final price can only be given upon negotiation which is subject to Board approval.

80 Class 43 Diesels

99. The 80 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.

100. The 80 Class 43 Diesels are summarized below:

- a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current *7 year MDS* capital plan. The diesels in particular will not meet the originally planned delivery.
- b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.
- c) The 80 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.
- d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet through a continuous replenishment of new locomotives.
- e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).
- f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 208	R 2 006					R221	R 2 435
Delivery		80						

- g) The acquisition of the 80 Class 43 Diesel preserves an NPV of R2 339 m based on the 1064 Locomotive Model.
- h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R3 017 m.
- i) The cost is estimated and therefore a final price can only be given upon negotiation which is subject to Board approval.

Financial Impact to Group

101. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.

102. For no delay the ratios are:

Ratios: Transnet Group - As is	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

103. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

104. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

105. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.
106. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.
107. The program supports the sustainable development of a South African locomotive production industry.
108. Economic benefits include:
 - a) Using idle capacity available in South Africa
 - b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
 - c) Ability to reinstate / retain local jobs as the skills pool already exists
 - d) Approximately 2 900 indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility and 1076 (first, second and third tier) at MARS with further jobs retained in downstream enterprises

PROJECT RISKS

109. Both projects face several risks that could affect their overall economic viability:
110. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with CSDP conditions.
111. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.
112. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.
113. Exchange Rate Fluctuations:
 - a) For the 100 Class 19E confined to MARS, the Yen / Rand Rate is forecast to be more stable than the Rand / Dollar rate. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
 - b) For the 80 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.
114. Tariffs not being realised:
 - a) For the coal line current FOB prices for RBCT coal are around US\$90 per ton, well below the peak of over US\$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
 - b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.
115. Tariff exposure to commodity downturns:

- a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
 - b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.
116. **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.
117. Project interdependencies:
- a) The Ermelo bypass line is crucial to the new Coal Export operations and achieving 81mt with the additional 100 Class 19E equivalent locomotives. This line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.
 - b) An interdependency for the 100 Class 19E locomotives is cascading locomotives to general freight. The 80 Class 43 Diesels do not have other project interdependencies
118. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.

RECOMMENDATION:

119. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

- a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
- b) To approve the investment in and procurement of 100 Class 19E equivalent electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
- c) To approve the confinement and award of the procurement for the 100 Class 19E equivalent electric locomotives.
- d) To approve the investment and change in the fleet plan to procure of 80 Class 43 diesel locomotives for General Freight in the estimated amount of R2 435 m (excluding borrowing costs):
- e) To approve an extension of the current Class 43 diesel locomotives contract for 80 additional locomotives:
- f) Once negotiated to inform the Board of the final price / cost.
- g) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions.

RECOMMENDED BY:

Siyabonga Gama
Chief Executive
Transnet Freight Rail

Date:

RECOMMENDED BY:

Gary Pita
Group Chief Supply Chain Officer
Transnet SOC

Date:

RECOMMENDED BY:

Mohammed Mahomed
Group General Manager
Capital Integration
Transnet SOC

Date:

RECOMMENDED BY:

Anoj Singh
Group Chief Financial Officer
Transnet SOC

Date:

RECOMMENDED BY:

Brian Molefe
Group Chief Executive
Transnet SOC

Date:

ANNEXURE FC 6



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB <francis.callard@transnet.net>
Sent: 06 October 2014 15:03
To: Francis Callard Transnet Freight Rail JHB
Subject: Fw: FW: 100 & 80 Locomotive Business Case
Attachments: BADC 100 80 Revised V14 0120.docx; FW 100 & 80 Locomotive Business Case.eml

On Tue Jan 21 11:44:30 SAST 2014, "Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net> wrote:

----- Original Message -----

From: "Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net>
Sent: Tue Jan 21 11:44:30 SAST 2014
To: "Thamsanqa Jiyane Transnet Freight Rail JHB" <Thamsanqa.Jiyane@transnet.net>, "Lindiwe Mdletshe Transnet Freight Rail JHB" <Lindiwe.Mdletshe@transnet.net>
Subject: FW: 100 & 80 Locomotive Business Case

Hi Thami

As requested.

Regards

Francis

From: Francis Callard Transnet Freight Rail JHB
Sent: 20 January 2014 10:16 AM
To: Theo Takane Corporate JHB; Pieter van Niekerk Transnet Freight Rail JHB
Cc: Pragasen Pillay Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: 100 & 80 Locomotive Business Case

Hi Theo

Please would you print and take through to Siya and Anoj for me.

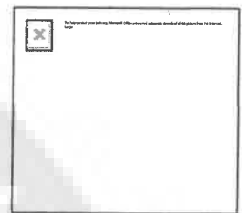
Thank you so much.

Pieter – This is the same as the one I sent you but have formatted the pages as a picture and tables were cut.

Regards and Best

Francis

083 283 1593



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ANNEXURE FC 7



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB <francis.callard@transnet.net>
Sent: 06 October 2014 14:57
To: Francis Callard Transnet Freight Rail JHB
Subject: Fw: FW: Procurement 60100 ppt 1.pptx
Attachments: BADC 100 80 Revised V15 0120 GP.docx; FW Procurement 60100 ppt 1.pptx.eml

On Wed Jan 22 07:53:30 SAST 2014, "Lindiwe Mdletshe Transnet Freight Rail JHB" <lindiwe.mdletshe@transnet.net> wrote:

----- Original Message -----

From: "Lindiwe Mdletshe Transnet Freight Rail JHB" <lindiwe.mdletshe@transnet.net>
Sent: Wed Jan 22 07:53:30 SAST 2014
To: "Francis Callard Transnet Freight Rail JHB" <Francis.Callard@transnet.net>
Subject: FW: Procurement 60100 ppt 1.pptx

Hi Francis,

Please see attached slide "Evaluation Methodology" that needs to be incorporated in the word documents under number 84.

Also incorporate your changes that you did last night.

Kind Regards

Lindiwe Mdletshe



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ANNEXURE FC 7A



**MEMORANDUM**

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 21 January 2014

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 80 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
 - a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
 - b) To approve the investment in and procurement of 100 electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
 - c) To approve the confinement and award of the procurement for the 100 Electric locomotives.
 - d) To approve the investment and change in the fleet plan to procure of 80 Class 43 diesel locomotives for General Freight in the estimated amount of R2 435 m (excluding borrowing costs):
 - e) To approve an extension of the current Class 43 diesel locomotives contract for 80 additional locomotives:
 - f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, award including process approval.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
 - a) The heavy haul 100 Electric locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan
 - b) The 80 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 80 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 80 locomotives

4. The Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.
5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 electric locomotives to CSR (China South Rail) E-LoCo Supply and extending the current Class 43 Contract with GESAT (General Electric South Africa Technologies) by 80 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
6. The confinement to CSR E-LoCo Supply and extension of the GESAT contract is motivated on the basis of urgency.
7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
8. The 80 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 80 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
10. The proposed transactions do not increase the risk related to the 1064 tender process.
11. Socio-economic benefits will be realised in line with existing commitments and expectations.
12. The context and arguments are presented as follows:
 - a) History and Status of the TFR Fleet Plan
 - b) Status of the 1064 Procurement
 - c) Impact of the 1064 delay
 - d) MDS Risk Mitigation
 - e) Project Benefits
 - f) Procurement Strategy
 - g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 66 "Extract from Procurement Procedures Manual" refers)

History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August

2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013, post MDS approval.

15. The history and status of the TFR Fleet Plan is summarised in the table below:

Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100 19E)	97.5	<ul style="list-style-type: none"> • Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (of the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		<ul style="list-style-type: none"> • 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		<ul style="list-style-type: none"> • In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the ageing fleet and 19 for volume expansion. • The tender, which was confined to three companies, was won by GE and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	<ul style="list-style-type: none"> • In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		<ul style="list-style-type: none"> • In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	<ul style="list-style-type: none"> • August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved (95+43), the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
80		<ul style="list-style-type: none"> • 80 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.












Loco Fleet History and Plan	Tons	Comment and Update
Ore Export Line (30 ton axle)		
44	44 mt	<ul style="list-style-type: none"> • 44 15E bought open tender (Toshiba / Mitsui) to replace / supplement existing 9E locomotives and Class 34 GE Diesels with an option for a further 18 locomotives. • The option to extend by 18 locomotives was not exercised.
32 76	60 mt	<ul style="list-style-type: none"> • A new confined contract was entered into with Mitsui for a total of 32 locomotives to take the Ore Export Line to 60 mt. This confinement was motivated on standardisation of the fleet. • ~ 110 Class 34 GE diesels returned to General Freight and replaced with 30 Class 43 GE. • Potential General Freight traffic may materialise from 2013/14 on the Ore Export line and 4 9E locomotives may be retained for this traffic.
23 15E and 3 Diesels	80 mt	<ul style="list-style-type: none"> • The volumes are not likely to materialise in the 7 year MDS program. The FEL feasibility study is on hold and there is currently no commitment to the increased volumes. • The locomotives are also put on hold. • The 15E production line has shut down. As and when required, the procurement options will be evaluated against standardisation, cost and interoperability. • Diesels, if required, will be provided from the GFB fleet

16. The essential points relating to this proposal are:
- a) The 100 Electric locomotives are for the coal line and were always part of the TFR locomotive fleet plan. See Para 34 and following. They release locomotives that can be used on GFB for the year that the 1064 program is delayed.
 - b) The 80 Class 43 diesel locomotives are not part of the 1064 locomotive program.
 - i. They are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 80 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
17. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances and this flexibility has been built into the tender and will be carried forward in the ultimate contracts.
18. The rationale for the 100 Electric and 80 Class 43 Diesel not being part of the 1064 locomotive process are covered under the Procurement Strategy (Para 57.a) and following.
19. The future acquisitions for the expansion of the Coal Export line and the Ore Export line will depend on market conditions and development of the full supply chain across all stakeholders.

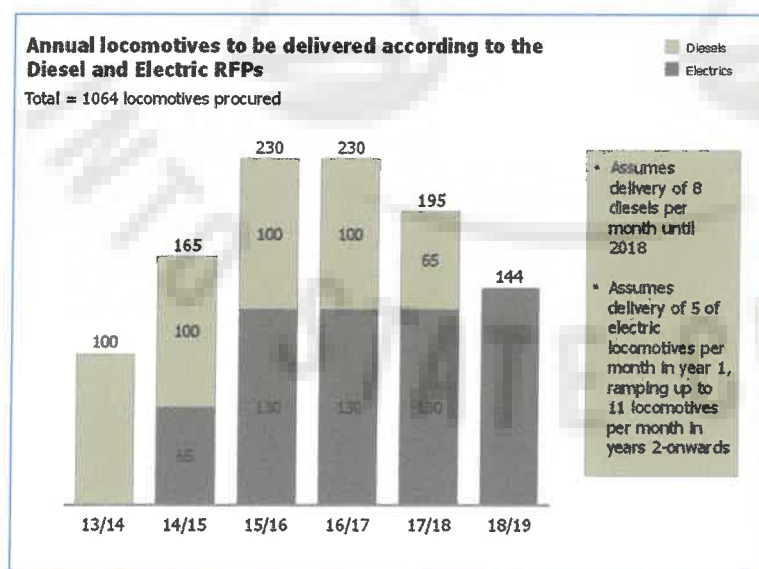
History and Status of the 1064 Procurement

20. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and synchronised approach across locomotives, wagons, infrastructure and personnel and these aspects were covered in the 1064 business case submission. Currently locomotive availability is the major constraint to achieving MDS volumes.

21. The history of the 1064 procurement is depicted in the exhibit below.

																																							
	2011/12			2012/13			2013/14			2014/15			2015/16			16/17	17/18	18/19	19/20	20/21	Total																		
1064	Apr	May	Jun	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar																
Current GF Fleet Runout	1730			1748			1888			1890			1864				1832	1776	1686	1550																			
March 2012							100			165			230				230	195	144								1064												
Most likely	Considering current state a two year delay is probable																								100		165	230	195	144									
95 CSR							10			85																													

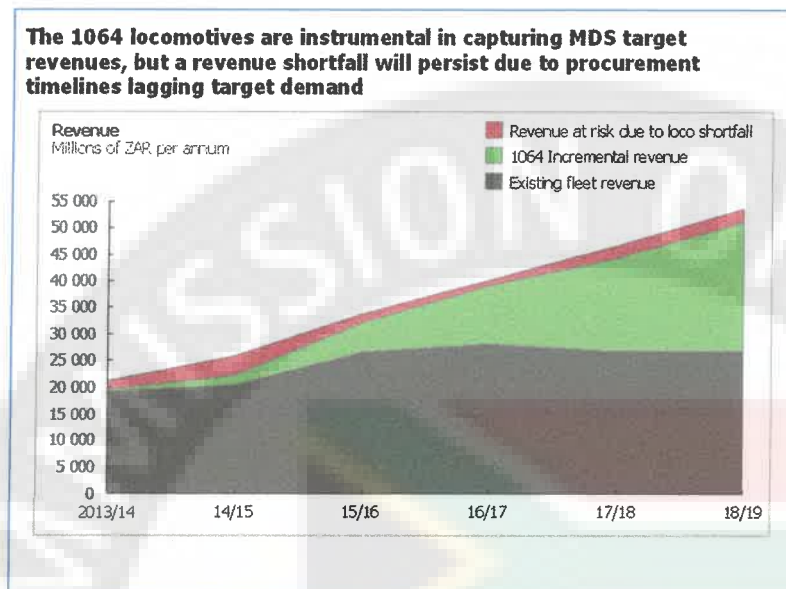
22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Freight Rail Investment Forum.
23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:
- An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and
 - Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.
24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.
25. Board approval was obtained in April 2013 and PFMA approval in August 2013.
26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained, and it is expected that adjudication will be finalised by November 2013 and contracts awarded by February 2014.
27. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption. It indicates that at the end of 2014/15 we would be behind by a total of 265 new locomotives which would have a major impact on MDS volumes.



28. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDS.

Impact of the 1064 Delay

29. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.



30. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall	MDS Shortfall Scenario - One Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	57	202	405	638	828	972
Impact							
Locomotives #	33	81	112	129	125	118	68
Tons Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue Rm	363	1286	2610	3639	4073	4188	2584
Capital Rm	-1725	-1248	-1641	276	381	20	5249
Mtce. Rm	36	91	132	159	162	160	96
Fuel and Elec. Rm	67	183	331	440	469	471	290

Shortfall Total One Year Delay	2013/14 - 16/17
Tons Mt	30
Revenue Rm	7 900
Mtce. Rm	417
Fuel and Elec. Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total	2013/14
Two Year Delay	- 16/17
Tons Mt	56
Revenue Rm	14 743
Mtce. Rm	901
Fuel and Elec. Rm	2052

c) Notes to tables:

- The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.
- The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION**MDS Risk Mitigation**

31. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - MTons Protected	2.4	2.4	4.4	7.2	16.44
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
80 Diesels MTons Protected		4.4	9.1	9.1	22.6
Income Protected Rm		R 1 077	R 2 324	R 2 403	R 5 803
Total Tons	2.4	6.8	13.54	16.3	39.04
Income Protected Rm	R 541	R 1 664	R 3 458	R 4 304	R 9 967

32. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which is the new operating procedure introduced on the Coal Export Line.
33. The prime motivators for this submission are to:
- Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
 - Ensure delivery earlier than the 1064 program by:

- i. Confining the procurement of the electric locomotives
- ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Dual Voltage Electric Locomotives:

34. The 100 Electric locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.
35. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with Electric locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.
36. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the Electric locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity and the order will be based on this technology.
37. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.
38. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.
39. The 100 Electric locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Electric type locomotives with significant operational and cost advantages.
 - a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.
40. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Electric locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;
 - a) 40 in 2013/14
 - b) 74 end 2015/16
 - c) 120 end 2016/17
41. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.

42. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.
43. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

44. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

45. The 100 Electric business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.
46. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.

47. Other aspects more fully covered in the 100 Electric Locomotive submission are:
- a) Reliability and Operational efficiency based on past experience of electric locomotives of similar design
 - b) Savings on operational expenditure and capitalised maintenance
 - c) Energy Savings

MDS Shortfall – 80 Class 43 Diesel Locomotives

48. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which are have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 80 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream after 2015.
49. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.
50. The 80 locomotives have a potential mitigation of 4.4 – 9.1 mt at an average 7 639 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 803 m (cumulative 2014/15 - 2015/16). The exact allocation of the 80 locomotives will be confirmed at the time of deployment over the following flows:
- a) Botswana Coal to Bulk Connexion and Richards Bay.
 - i. Potential 1.8mt – 3.8mt
 - ii. Diesels required: 35 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month: 5 957
 - b) Elitheni Coal from Sterkstroom to East London
 - i. Potential 1mt to 2.5mt
 - ii. Diesels required: 15 inclusive of technical allowance
 - iii. Potential GTK's per loco per month: 12 784
 - c) Manganese from Postmasburg to Bloemfontein / Bloemcon
 - i. Potential 1 - 1.6mt mostly from new entrant miners.
 - ii. Diesels required: 10 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month : 7 821
 - d) Coal Line: Stabilise the Coal Export Line and enable redeploying older diesels to areas including but not limited to those mentioned above as well as Polokwane.

PROJECT BENEFITS

51. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Electrics and R5 803 m for the 80 Class 43 Diesels over the period 2013/14-2016/17 .
52. Coal Export volumes and income are protected though improved reliability.
53. Sustainability objectives as per the Transnet Sustainability framework are met threefold:

- a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.
 - b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.
 - c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.
54. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.
55. Benefits specific to the 100 Electrics based on past experience include:
- a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
 - b) The regenerative capability of the new technology locomotives introduces further energy savings of between 22% and 26%.
 - c) Quantifiable savings in maintenance of newer locomotives.
 - d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.
56. Benefits specific to the 80 Class 34 Diesels include:
- a) Fuels savings of 8% over the older diesel fleet.
 - b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.
 - c) Standardisation of maintenance regimes with current Class 43 fleet.
 - d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.
 - e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.
 - f) The locomotives will be fitted with Distributed Power capability enabling longer trains and improved operational capability.
 - g) Mitigating the risk of instability in the Eskom power supply.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

57. The procurement process was carefully considered and was not taken into or part of the 1064 locomotive process. Aspects considered were:
- a) **Type:** The 100 electrics are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.
 - b) **Delivery:** The 80 diesels are similar to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

58. The following options were considered and reasoned:

- a) Go out on tender
- b) Do Nothing
- c) Confine / Extend Contract
- d) Extend current 20E contract for 95 CSR Locomotives
- e) Leasing

59. **Go out on tender:** With this option, which affords transparency, the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It does not address MDS volumes and causes a 20mt gap from 2014 to 2016.

60. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Base case Rm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 690	45 382	53 852	62 146	72 541	81 622
Operating Expenses	20 616	22 640	25 057	28 279	31 434	35 336
EBITDA	16 074	22 742	28 796	33 866	41 107	46 286

One Year Delay Rm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 327	44 096	50 512	56 163	64 513	72 480
Operating Expenses	20 514	22 367	24 594	27 680	30 802	34 704
EBITDA	15 813	21 729	25 917	28 483	33 711	37 776

61. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative public implications. For the urgency already outlined and the reasons below this is not part of the 1064 process and will not impact on that process.

- a) The diesel locomotives are known, running effectively, meet the technical requirements and prototyping and set up costs are not required
- b) Extension of the GE contract is the fastest most efficient way to procure the diesel locomotives.
- c) The CSR facilities are available for immediate production which will result in significant delivery acceleration based on the learnings of the 95 loco processes. CSR has capacity to produce 2000 locomotives per annum.
- d) CSR is a known current supplier who has excelled in the two most recent tenders for electric locomotives from a technical capability and capacity perspective, supplier development, commercial and transformational perspective.
- e) Confinement of the contract to CSR meets the grounds for confinement per the most recently BADC approved PPM.
- f) Both the extension and confinement are acceptable procurement mechanisms per the PPM in this instance.

62. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

Leasing: Aurizon in Australia have indicated that they have about 20 locomotives available for lease. However, the newest of these is 30 years old and the quantities are not likely significantly impact volumes. We will view the 20 locomotives and assess their suitability for our network. There is no viable external market for 1064mm dual voltage electric locomotives. South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

63. **Implications:** The 1064 tender is currently under adjudication. It is the largest procurement process within Transnet and while it seeks (inter alia) to launch a South African locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The following implications were considered in adjusting the (diesel locomotive) quantities.
- a) The tenders have closed and asking respondents for revised submissions would delay the process further.
 - b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.
 - c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

64. For reasons of urgency, the confine / extend contract option is the recommended option.
65. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

66. An extract from the latest approved Procurement Procedures Manual, dated 01 October 2012, stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

- a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.
- b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;
- c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or
- d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the

organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."

67. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.
- a) Item 13 et al covering the "History and Status of the TFR Fleet Plan" and the "History and Status of the 1064 Procurement" demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.
 - b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.
 - c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.
68. Complementing the urgency is ground (d):
- a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be largely identical with those already supplied and to be supplied and
 - c) Transnet would incur wasted time and money in approaching the market (b) and (c) above are relevant due to the fact that:
 - i. CSR has been adjudicated as the best bidder during the 95 electric loco process as well as joint on the 1064 process. Both these tenders include the Board approved procurement methodology of maximising supplier development whilst ensuring highest standards of quality and best possible commercial offering. Transnet has just spent a large amount of time, human capital and money in the recent tenders and going through another tender process would not be efficient given the urgency.
 - ii. Production of the current MARS contract has been completed and was based on previous procurement methodology where supplier development was not a key focus area and the Mitsui consortium did not fare well in the two most recent tenders issued by Transnet. Therefore continuation with Mitsui via confinement would pose unnecessary risk to the organisation.:
69. TE is currently maintaining and repairing the Class 19E Electric Series which means that they are accustomed to maintenance regimes are more modern electric dual voltage locomotives. Limited additional training will be required and optimum utilisation of the current maintenance facilities will be met. Simplified maintenance practises will result in shorter Mean Time to Repair. Common practices will be addressed through maintenance regimes of the 95 loco series, 599 elements that CSR is shortlisted for and this fleet.
70. From a social-economic perspective the following jobs will be retained in assembly facilities:
- a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises

- b) Approximately 400 jobs are estimated to be created over the period for electric assembly and further jobs will be retained in downstream enterprises
 - c) Based on SD offerings made in recent tenders Transnet believes it can achieve maximum SD possible with at least 65% for diesels and 70% for electrics.
71. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to CSR.

Contract Extension with GESAT for 80 Class 43 Diesels

72. The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:
- a) the basis of urgency (a) as outlined above
 - b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).
73. The project is motivated on the basis of Item 66 Para (a) where a genuine unforeseeable urgency has arisen. The arguments are per Items 67 and **Error! Reference source not found.** above are also applicable to the 80 Class 43 Diesels.
74. The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.5.3, allows for a contract extension. In this instance the request is for a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.
75. Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.
76. Addressing the urgency:
- a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011, through a confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.
 - b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.
 - c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.
 - d) No prototyping or type testing is required.
77. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:
- a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.
 - c) Transnet would incur wasted time and money in approaching the market as:

- i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.
 - d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.
After many years these standards have now changed and TFR is evaluating the impact of these changes.
 - ii. Maintenance standardisation addresses:
 - Reduced spares holdings and simplified and standardised inventory.
 - Standardised tools and diagnostic instruments serving a common fleet
 - Unified training and for maintenance staff.
 - Simplified maintenance practises resulting in shorter Mean Time to Repair.
 - iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.
78. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:
- a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and
 - b) the proposed 80 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and
 - c) the limited quantities required:
- It is submitted that it is not in the best interest of Transnet to solicit other offers for the 80 Class 43 diesel locomotives.
79. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.
80. The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead.
81. Given that a contract is already in place and that the additional 80 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

82. Extend the current contract with General Electric South African Technologies (GESAT) for 80 Class 43 Diesel Locomotives.
83. Confine and award to China South Rail (CSR) for 100 Electric locomotives.

84. The reasons for the different confinement and extension strategies have been highlighted in the sections above.



Evaluation Methodology

The Request for Proposals (RFP's) for the confinement to CSR and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below. The normal open tender process would follow the evaluation methodology indicated below.



The Evaluation Methodology for an open tender comprises the following steps:

- 1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders
 - 2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met. SD pre-qualification criteria will be set at 65% for diesels and 70% for electrics based on recent learnings from the 1064 process.
 - 3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA
 - 4) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.
 - 5) A **weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used determine final award
 - 6) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers
 - 7) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM
 - 8) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future)
 - 9) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.
85. The above process is modified for the proposed confinement and extension in that:
- a) Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.
 - b) Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met. SD pre-qualification must be met
 - c) Local content threshold must be met
 - d) Technical evaluation (5) is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Electric's) for incorporation.
 - e) Weighted Scoring Approach (6) and
 - f) Final Evaluation (8) is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

86. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.
87. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1)) are compulsory and are elaborated in following table:

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

88. In addition, the progressive Local Content for Designated Components (Section 3 (3.2)) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

89. The Supplier Development categories are set out in the table below. The pre-qualification targets are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)	
Category	
Investment in plant – bidders monetary commitment to investment in plant and equipment	
Downstream procurement – bidders commitment to supporting 2 nd , 3 rd tier suppliers, etc.	
Skills development – supplier's commitment to skills development (number of people and monetary)	
Job creation / preservation – supplier's commitment to number of jobs maintained/created	
Small business promotion – supplier's commitment to usage of small businesses (monetary)	
ED/SD – bidders commitment to SD initiatives and ED development	

Award Conditions – 100 Electric Equivalent

90. Approval to award the business to CSR is requested subject to SD compliance with the following:
- Local content meeting or exceeding 60% by value
 - Compliance with **new** SD commitments with a minimum of 70% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco which will be used as a guide as is dependent on forex fluctuation.

Award Conditions – 80 Class 43 Diesels

91. Approval to award the business to GESAT is requested subject to SD compliance with the following:
- Local content meeting or exceeding 55% by value
 - Compliance with **new** SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP
 - Transnet will also request a price range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco which will be used as a guide as is dependent on forex fluctuation.

FINANCIAL AND BUDGET IMPLICATIONS

92. The financial motivation and budget implications for the 100 Electric and 80 Class 43 Diesels are discussed in detail in the respective submissions.

100 Electric Equivalent

93. The 100 Electric Locomotives are summarized below and are based on previous experience with the Class 19E contract:
- A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)
 - Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

- Based on the original Coal 81 mt model, the acquisition of the 100 Electric sustaining locomotives has a net present value (NPV) of R98.49m over 10 years.
- The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R59.1m.
- Approved infrastructure investments supporting the project totals R3 974 million.
- The cost is estimated and therefore a final price can only be given upon negotiation.

80 Class 43 Diesels

94. The 80 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.
95. The 80 Class 43 Diesels are summarized below:

- a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current 7 year MDS capital plan. The diesels in particular will not meet the originally planned delivery.
- b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.
- c) The 80 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.
- d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet though a continuous replenishment of new locomotives.
- e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).
- f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 208	R 2 006					R221	R 2 435
Delivery		80						

- g) The acquisition of the 80 Class 43 Diesel preserves an NPV of R2 339 m based on the 1064 Locomotive Model.
- h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R3 017 m.
- i) The cost is estimated and therefore a final price can only be given upon negotiation.

Financial Impact to Group

- 96. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.
- 97. For no delay the ratios are:

Ratios: Transnet Group - As is	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

- 98. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

99. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

100. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.
101. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.
102. The program supports the sustainable development of a South African locomotive production industry.
103. Economic benefits include:
 - a) Using idle capacity available in South Africa
 - b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
 - c) Ability to reinstate / retain local jobs as the skills pool already exists
 - d) Significant indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility with further jobs retained in downstream enterprises

PROJECT RISKS

104. Both projects face several risks that could affect their overall economic viability:
105. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with SD conditions.
106. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.

107. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.
108. Exchange Rate Fluctuations:
- a) For the 100 Electric confined to CSR, the Yen / Rand Rate is used as a forecast given that the Class 19E deal was used as a base. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
 - b) For the 80 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.
109. Tariffs not being realised:
- a) For the coal line current FOB prices for RBCT coal are around US\$90 per ton, well below the peak of over US\$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
 - b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.
110. Tariff exposure to commodity downturns:
- a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
 - b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.
111. **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.
112. Project interdependencies:
- a) The Ermelo bypass line is crucial to the new Coal Export operations and achieving 81mt with the additional 100 Electric equivalent locomotives. This line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.
 - b) An interdependency for the 100 Electric locomotives is cascading locomotives to general freight. The 80 Class 43 Diesels do not have other project interdependencies
113. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.

RECOMMENDATION:

114. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

- a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
- b) To approve the investment in and procurement of 100 electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
- c) To approve the confinement and award of the procurement for the 100 Electric locomotives.
- d) To approve the investment and change in the fleet plan to procure of 80 Class 43 diesel locomotives for General Freight in the estimated amount of R2 435 m (excluding borrowing costs):
- e) To approve an extension of the current Class 43 diesel locomotives contract for 80 additional locomotives:
- f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, award including process approval.

RECOMMENDED BY:

 Siyabonga Gama
 Chief Executive
 Transnet Freight Rail

 Date:

RECOMMENDED BY:

 Anoj Singh
 Group Chief Financial Officer
 Transnet SOC

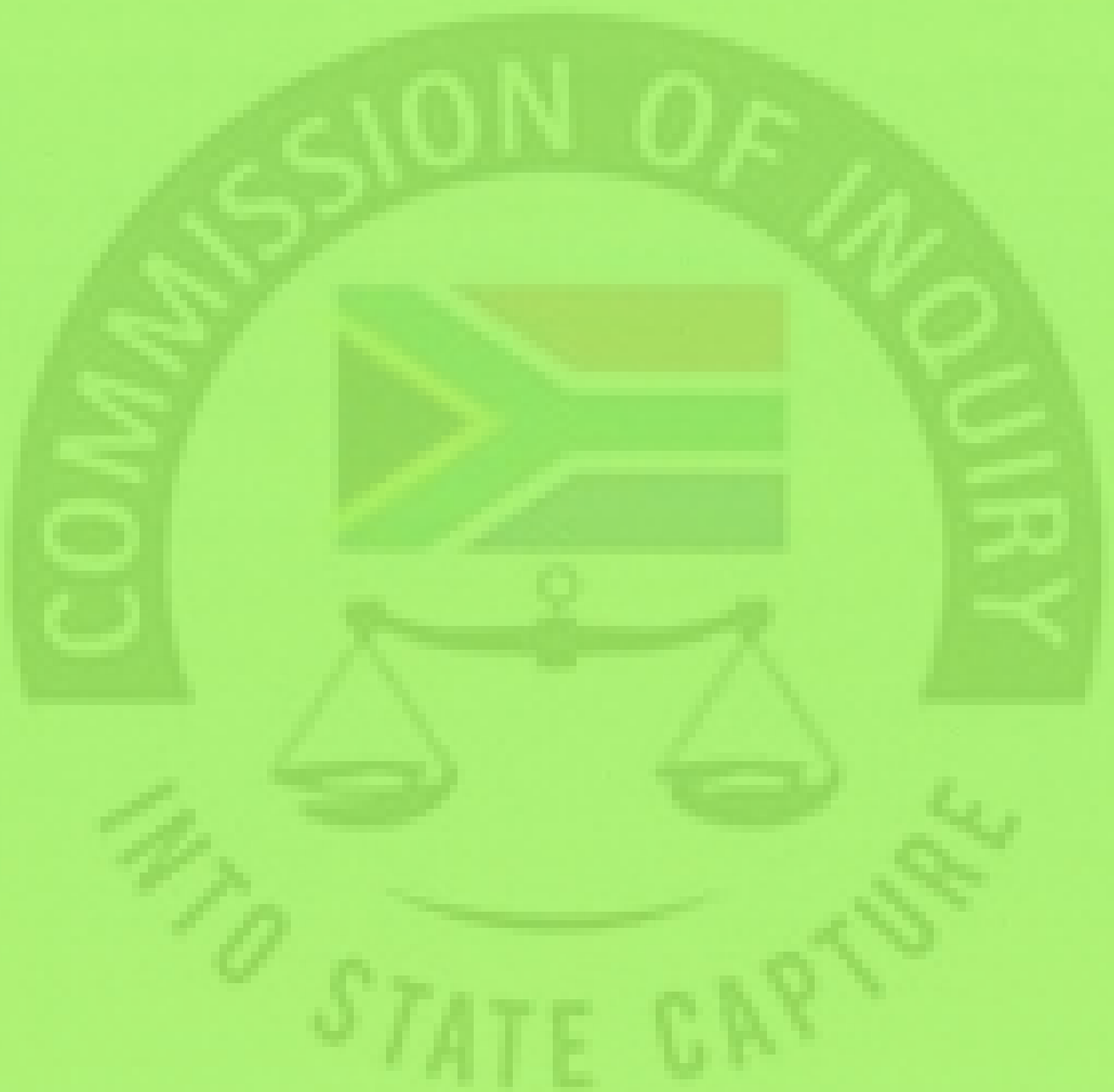
 Date:

RECOMMENDED BY:

 Brian Molefe
 Group Chief Executive
 Transnet SOC

 Date:

ANNEXURE FC 8



MEMORANDUM

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 2021 January 20152014

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 CLASS 19E EQUIVALENT DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 80 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
 - a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
 - b) To approve the investment in and procurement of 100 ~~Class 19E equivalent electric~~ locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
 - c) To approve the confinement and award of the procurement for the 100 ~~Class 19E equivalent electric~~ Electric locomotives.
 - d) To approve the investment and change in the fleet plan to procure of 80 Class 43 diesel locomotives for General Freight in the estimated amount of R2 435 m (excluding borrowing costs):
 - e) To approve an extension of the current Class 43 diesel locomotives contract for 80 additional locomotives:
 - f) ~~Once negotiated to inform the Board of the final price / cost:~~
 - g) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, award including process approval.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
 - a) The heavy haul 100 ~~Class 19E~~ Electric locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan

- b) The 80 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 80 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 80 locomotives
4. ~~The Class 19E dual voltage electric and~~ The Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.
 5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 ~~Class 19E electric locomotives to~~ MARSCSR (China South Rail) E-LoCo Supply and extending the current Class 43 Contract with GESAT (General Electric South Africa Technologies) by 80 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
 6. The confinement to MARSCSR E-LoCo Supply and extension of the GESAT contract is motivated on the basis of urgency.
 7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
 8. The 80 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 80 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
 9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
 10. The proposed transactions do not increase the risk related to the 1064 tender process.
 11. Socio-economic benefits will be realised in line with existing commitments and expectations.
 12. The context and arguments are presented as follows:
 - a) History and Status of the TFR Fleet Plan
 - b) Status of the 1064 Procurement
 - c) Impact of the 1064 delay
 - d) MDS Risk Mitigation
 - e) Project Benefits
 - f) Procurement Strategy
 - g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 66 "Extract from Procurement Procedures Manual" refers)

History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes

increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August 2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013, post MDS approval.

15. The history and status of the TFR Fleet Plan is summarised in the table below:

Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100 19E)	97.5	<ul style="list-style-type: none"> • Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (of the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		<ul style="list-style-type: none"> • 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		<ul style="list-style-type: none"> • In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the ageing fleet and 19 for volume expansion. • The tender, which was confined to three companies, was won by GE and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	<ul style="list-style-type: none"> • In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		<ul style="list-style-type: none"> • In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	<ul style="list-style-type: none"> • August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved (95+43), the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
80		<ul style="list-style-type: none"> • 80 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.

Loco Fleet History and Plan	Tons	Comment and Update
Ore Export Line (30 ton axle)		
44 <u>32</u> 76	44 mt 60 mt	<ul style="list-style-type: none"> • 44 15E bought open tender (Toshiba / Mitsui) to replace / supplement existing 9E locomotives and Class 34 GE Diesels with an option for a further 18 locomotives. • The option to extend by 18 locomotives was not exercised. • A new confined contract was entered into with Mitsui for a total of 32 locomotives to take the Ore Export Line to 60 mt. This confinement was motivated on standardisation of the fleet. • ~ 110 Class 34 GE diesels returned to General Freight and replaced with 30 Class 43 GE. • Potential General Freight traffic may materialise from 2013/14 on the Ore Export line and 4 9E locomotives may be retained for this traffic.
23 15E and 3 Diesels	80 mt	<ul style="list-style-type: none"> • The volumes are not likely to materialise in the 7 year MDS program. The FEL feasibility study is on hold and there is currently no commitment to the increased volumes. • The locomotives are also put on hold. • The 15E production line has shut down. As and when required, the procurement options will be evaluated against standardisation, cost and interoperability. • Diesels, if required, will be provided from the GFB fleet

16. The essential points relating to this proposal are:

- a) The 100 Class 19E Electric locomotives are for the coal line and were always part of the TFR locomotive fleet plan. See Para 34 and following. They release locomotives that can be used on GFB for the year that the 1064 program is delayed.
- b) The 80 Class 43 diesel locomotives are not part of the 1064 locomotive program.
 - i. They are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 80 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.

17. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances and this flexibility has been built into the tender and will be carried forward in the ultimate contracts.

18. The rationale for the 100 Class 19E Electric and 80 Class 43 Diesel not being part of the 1064 locomotive process are covered under the Procurement Strategy (Para 57.a) and following).

19. The future acquisitions for the expansion of the Coal Export line and the Ore Export line will depend on market conditions and development of the full supply chain across all stakeholders.

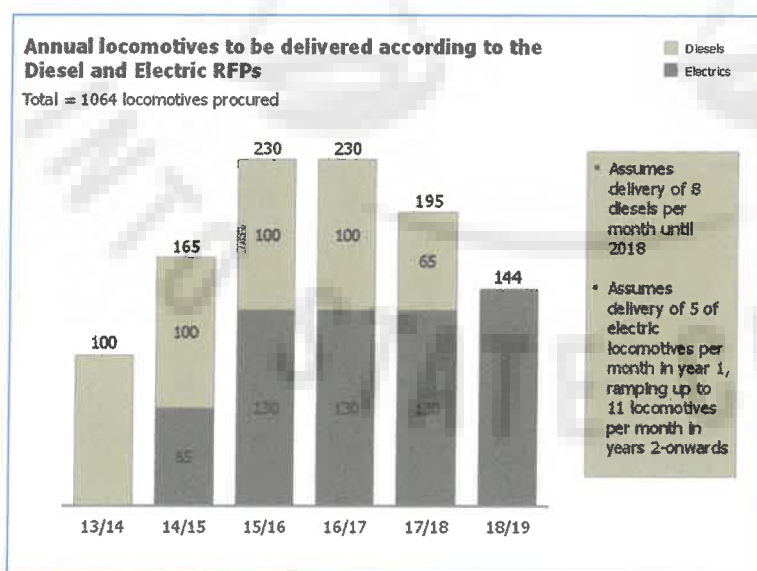
History and Status of the 1064 Procurement

20. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and synchronised approach across locomotives, wagons, infrastructure and personnel and these aspects were covered in the 1064 business case submission. Currently locomotive availability is the major constraint to achieving MDS volumes.

21. The history of the 1064 procurement is depicted in the exhibit below.

	2011/12			2012/13			2013/14			2014/15			2015/16			16/17	17/18	18/19	19/20	20/21	Total
1064	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Current GF Fleet Runout																					
March 2012																					
Most likely																					
95 CSR																					

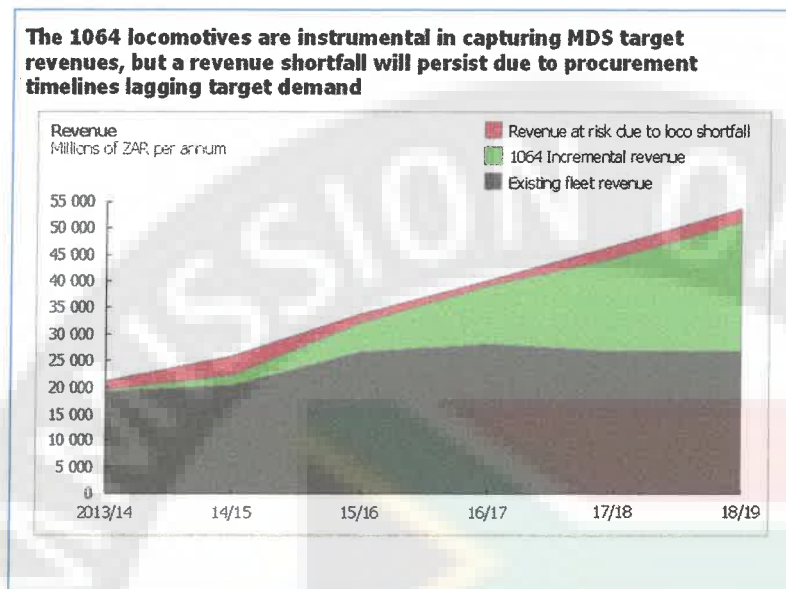
22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Freight Rail Investment Forum.
23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:
- An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and
 - Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.
24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.
25. Board approval was obtained in April 2013 and PFMA approval in August 2013.
26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained, and it is expected that adjudication will be finalised by November 2013 and contracts awarded by February 2014.
27. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption. It indicates that at the end of 2014/15 we would be behind by a total of 265 new locomotives which would have a major impact on MDS volumes.



28. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDS.

Impact of the 1064 Delay

29. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.



30. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall		MDS Shortfall Scenario - One Year Delay						
Locomotives		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay		33	138	314	533	763	946	1040
Year Delay		0	57	202	405	638	828	972
Impact								
Locomotives	#	33	81	112	129	125	118	68
Tons	Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue	Rm	363	1286	2610	3639	4073	4188	2584
Capital	Rm	-1725	-1248	-1641	276	381	20	5249
Mtce.	Rm	36	91	132	159	162	160	96
Fuel and Elec.	Rm	67	183	331	440	469	471	290

Shortfall Total		2013/14
One Year Delay		- 16/17
Tons	Mt	30
Revenue	Rm	7 900
Mtce.	Rm	417
Fuel and Elec.	Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total	2013/14
Two Year Delay	- 16/17
Tons Mt	56
Revenue Rm	14 743
Mtce. Rm	901
Fuel and Elec. Rm	2052

c) Notes to tables:

- The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.
- The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION**MDS Risk Mitigation**

31. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - MTons Protected	2.4	2.4	4.4	7.2	16.44
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
80 Diesels MTons Protected		4.4	9.1	9.1	22.6
Income Protected Rm		R 1 077	R 2 324	R 2 403	R 5 803
Total Tons	2.4	6.8	13.54	16.3	39.04
Income Protected Rm	R 541	R 1 664	R 3 458	R 4 304	R 9 967

32. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which is the new operating procedure introduced on the Coal Export Line.
33. The prime motivators for this submission are to:
- Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
 - Ensure delivery earlier than the 1064 program by:

- i. Confining the procurement of the electric locomotives
- ii. Extending the current diesel locomotive contract.

MDS Shortfall – 100 Class-19E Dual Voltage Electric Locomotives:

34. The 100 ~~Class-19E~~Electric locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.
35. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with ~~Class-19E equivalent~~Electric locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.
36. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the ~~Class-19E~~Electric locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity and the order will be based on this technology.
37. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.
38. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth though to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.
39. The 100 ~~Class-19E~~Electric locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on ~~Class-19E~~Electric type locomotives with significant operational and cost advantages.
 - a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.
40. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 ~~Class-19E~~Electric locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;
 - a) 40 in 2013/14
 - b) 74 end 2015/16
 - c) 120 end 2016/17
41. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.

42. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.
43. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.

a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.

b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	8.868	10.347	15.135	17.056	18.446	22.897	22.912

c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.

d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

44. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

45. The 100 ~~Class 19E Electric~~ business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.
46. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.

47. Other aspects more fully covered in the 100 ~~Class 19E~~Electric Locomotive submission are:
- a) Reliability and Operational efficiency based on past experience of electric locomotives of similar design
 - b) Savings on operational expenditure and capitalised maintenance
 - c) Energy Savings
 - d) ~~Locomotive Fleet Plan and Standardisation and its benefits which include:~~
 - i. ~~The fleet is standardized with operational interoperability~~
 - ii. ~~Standard maintenance practices are propagated~~

~~Reduction in spares holdings and special tools~~

MDS Shortfall – 80 Class 43 Diesel Locomotives

48. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which are have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 80 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream after 2015.
49. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.
50. The 80 locomotives have a potential mitigation of 4.4 – 9.1 mt at an average 7 639 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 803 m (cumulative 2014/15 - 2015/16). The exact allocation of the 80 locomotives will be confirmed at the time of deployment over the following flows:
- a) Botswana Coal to Bulk Connexion and Richards Bay.
 - i. Potential 1.8mt – 3.8mt
 - ii. Diesels required: 35 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month: 5 957
 - b) Elitheni Coal from Sterkstroom to East London
 - i. Potential 1mt to 2.5mt
 - ii. Diesels required: 15 inclusive of technical allowance
 - iii. Potential GTK's per loco per month: 12 784
 - c) Manganese from Postmasburg to Bloemfontein / Bloemcon
 - i. Potential 1 - 1.6mt mostly from new entrant miners.
 - ii. Diesels required: 10 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month : 7 821
 - d) Coal Line: Stabilise the Coal Export Line and enable redeploying older diesels to areas including but not limited to those mentioned above as well as Polokwane.

PROJECT BENEFITS

51. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 ~~Class 19E~~Electrics and R5 803 m for the 80 Class 43 Diesels over the period 2013/14-2016/17 .
52. Coal Export volumes and income are protected though improved reliability.

53. Sustainability objectives as per the Transnet Sustainability framework are met threefold:
- a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.
 - b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.
 - c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.
54. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.
55. Benefits specific to the 100 Class 19E Electrics based on past experience include:
- a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
 - b) The regenerative capability of the new technology locomotives introduces further energy savings of between 22% and 26%.
 - c) Quantifiable savings in maintenance of the new newer locomotives over the older series.
 - d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.
56. Benefits specific to the 80 Class 34 Diesels include:
- a) Fuels savings of 8% over the older diesel fleet.
 - b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.
 - c) Standardisation of maintenance regimes with current Class 43 fleet.
 - d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.
 - e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.
 - f) The locomotives will be fitted with Distributed Power capability enabling longer trains and improved operational capability.
 - g) Mitigating the risk of instability in the Eskom power supply.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

57. The procurement process was carefully considered and was not taken into or part of the 1064 locomotive process. Aspects considered were:
- a) **Type:** The 100 ~~19E equivalent~~ electrics are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.
 - b) **Delivery:** The 80 diesels are equivalent similar to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

58. The following options were considered and reasoned:

- a) Go out on tender
- b) Do Nothing
- c) Confine / Extend Contract
- d) Extend current 20E contract for 95 CSR Locomotives
- e) Leasing

59. **Go out on tender:** With this option, which affords transparency, the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It does not address MDS volumes and causes a 20mt gap from 2014 to 2016.

60. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Base case Rm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 690	45 382	53 852	62 146	72 541	81 622
Operating Expenses	20 616	22 640	25 057	28 279	31 434	35 336
EBITDA	16 074	22 742	28 796	33 866	41 107	46 286

One Year Delay Rm	Budget	Projections				
2013-14 Corporate Plan	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	36 327	44 096	50 512	56 163	64 513	72 480
Operating Expenses	20 514	22 367	24 594	27 680	30 802	34 704
EBITDA	15 813	21 729	25 917	28 483	33 711	37 776

61. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative public implications. For the urgency already outlined and the reasons below this is not part of the 1064 process and will not impact on that process.

- a) The diesel locomotives are known, running effectively, meet the technical requirements and prototyping is and set up costs are not required
- b) Extension of the GE contract is the fastest most efficient way to procure the diesel locomotives.
- c) The MARSCSR facilities are available for immediate production which will result in significant delivery acceleration based on the learnings of the 95 loco processes. CSR has capacity to produce 2000 locomotives per annum.
- d) CSR is a known current supplier who has excelled in the two most recent tenders for electric locomotives from a technical capability and capacity perspective, supplier development, commercial and transformational perspective.
- e) Confinement of the contract to CSR meets the grounds for confinement per the most recently BADC approved PPM.
- d)f) Both the extension and confinement are acceptable procurement mechanisms per the PPM in this instance.

62. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive and is not intended for heavy haul use on the Coal Export Line.

The first delivery is awaited, the locomotive has still to be tested and it is at present unproven. Only after extensive type testing will it be possible to say whether and to what extent it can replicate the heavy haul capabilities of the 19E. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

Leasing: Aurizon in Australia have indicated that they have about 20 locomotives available for lease. However, the newest of these is 30 years old and the quantities are not likely significantly impact volumes. We will view the 20 locomotives and assess their suitability for our network. There is no viable external market for 1064mm dual voltage electric locomotives. South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

63. **Implications:** The 1064 tender is currently under adjudication. It is one of the largest procurement processes/process within Transnet and while it seeks (inter alia) to launch a South African locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The following implications were considered in adjusting the (diesel locomotive) quantities.

- a) The tenders have closed and asking respondents for revised submissions would delay the process further.
- b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.
- c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

64. For reasons of urgency, the confine / extend contract option is the recommended option.
65. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

66. An extract from the latest approved Procurement Procedures Manual, dated 01 October 2012, stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

- a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.
- b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;

- c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or
- d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."

67. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.

- a) Item 13 et al covering the "History and Status of the TFR Fleet Plan" and the "History and Status of the 1064 Procurement" demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.
- b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.
- c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.

68. Addressing the urgency:

- a) ~~The locomotives requested have been through the teething phase with most initial manufacturing and operational faults rectified. Present models are operating optimally and have exceeded their design parameters~~
- b) ~~Re-starting of these production lines will be quick; the designs are finalised so delivery lead times will be kept to a minimum and set-up costs reduced.~~
- c) ~~Crew (drivers and assistants) are already trained on these locomotives.~~
- d) ~~Confinement will realize the quickest delivery and existing facilities previously used for the assembly of the 110 x Class 19E.~~

69.68. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed ground (d). Inter-alia:):

- a) Locomotives are highly specialised with limited suppliers worldwide.
- b) The locomotives would be largely identical with those already supplied as and to be supplied and
 - i. ~~In 2009, Transnet Freight Rail (TFR) entered into a contract with Mitsui & Co African Railway Solutions (PTY) LTD (MARS for the procurement of 110 new Class 19E electric locomotives for the Coal Export Line; TFR took delivery of the last locomotive in August 2012. MARS are also delivering the Class 15E locomotives for the Ore Export line and the last one is due to come of the factory line in September 2013;~~
- c) Transnet would incur wasted time and money in approaching the market as (b) and (c) above are relevant due to the fact that:
 - i. ~~The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least~~

12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.

ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 15 months before production commences.

d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.

i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.

After many years these standards have now changed and TFR is evaluating the impact of these changes.

ii. Maintenance standardisation addresses:

- Reduced spares holdings and simplified and standardised inventory.
- Standardised tools and diagnostic instruments serving a common fleet
- Unified training and for maintenance staff.
- Simplified maintenance practises resulting in shorter Mean Time to Repair.

i. CSR has been adjudicated as the best bidder during the 95 electric loco process as well as joint on the 1064 process. Both these tenders include the Board approved procurement methodology of maximising supplier development whilst ensuring highest standards of quality and best possible commercial offering. Transnet has just spent a large amount of time, human capital and money in the recent tenders and going through another tender process would not be efficient given the urgency.

ii. Production of the current MARS contract has been completed and was based on previous procurement methodology where supplier development was not a key focus area and the Mitsui consortium did not fare well in the two most recent tenders issued by Transnet. Therefore continuation with Mitsui via confinement would pose unnecessary risk to the organisation.:

iii. TE is currently maintaining and repairing the Class 19E Electric Series which means that they are accustomed to maintenance regimes are more modern electric dual voltage locomotives. Limited additional training will be required and optimum utilisation of the current maintenance facilities.

70. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

- a) the Class 19E locomotives are performing well and have proven to be both efficient and reliable and
- b) the Class 19E is a modern locomotive and the proposed 100 locomotives will be an extension of the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities of each type of locomotive:

69. It is submitted that. Simplified maintenance practises will result in shorter Mean Time to Repair. Common practices will be addressed through maintenance regimes of the 95 loco series, 599

~~elements that it is not in the best interest of Transnet to solicit other offers for the 19E locomotives. CSR is shortlisted for and this fleet.~~

~~71-70.~~ From a social-economic perspective the following jobs will be retained in assembly facilities:

- ~~a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises~~
- ~~b) Approximately 400 jobs will be estimated to be created over the period at the Union Carriage Works for electric assembly facility and further jobs will be retained in downstream enterprises~~
- ~~c) Toshiba has indicated its serious intent in building a traction motor assembly facility in SA and this could be expedited through the SD obligations that would be linked to this contract.~~

~~72. The Japanese Yen has weakened marginally against the South African Rand. The Rand in turn has weakened significantly against the US Dollar. The foreign component of the original 110 x Class 19E contract was 40% Yen based and a contract on similar terms would be considerably cheaper than a new US Dollar based contract.~~

~~73. The original 110 Class 19E contract was entered into in 2006. The SD terms and conditions required today are significantly different and more stringent. This calls for a new procurement event via a confined tender.~~

- ~~c) Based on SD offerings made in recent tenders Transnet believes it can achieve maximum SD possible with at least 65% for diesels and 70% for electrics.~~

~~74-71.~~ Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to MARS Railway Solutions, a subsidiary of Japan's Mitsui & Co Limited CSR.

Contract Extension with GESAT for 80 Class 43 Diesels

~~75-72.~~ The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:

- ~~a) the basis of urgency (a) as outlined above~~
- ~~b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).~~

~~76-73.~~ The project is motivated on the basis of Item 66 Para (a) where a genuine unforeseeable urgency has arisen. The arguments are per Items 67 and 1 above are also applicable to the 80 Class 43 Diesels.

~~77-74.~~ The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.5.3, allows for a contract extension. In this instance the request is for a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.

~~78-75.~~ Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.

~~79-76.~~ Addressing the urgency:

- a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011, through a confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.
- b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.
- c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.
- d) No prototyping or type testing is required.

80-77. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:

- a) Locomotives are highly specialised with limited suppliers worldwide.
- b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.
- c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.
- d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.
After many years these standards have now changed and TFR is evaluating the impact of these changes.
 - ii. Maintenance standardisation addresses:
 - Reduced spares holdings and simplified and standardised inventory.
 - Standardised tools and diagnostic instruments serving a common fleet
 - Unified training and for maintenance staff.
 - Simplified maintenance practises resulting in shorter Mean Time to Repair.
 - iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.

81-78. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:

- a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and
- b) the proposed 80 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities required:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 80 Class 43 diesel locomotives.

~~82.79.~~ In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.

~~83.80.~~ The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead. ~~To breakeven point to set up new facilities is marginal for the 100 Class 19E but mitigates against new facilities for the 80 Class 43 diesels.~~

~~84.81.~~ Given that a contract is already in place and that the additional 80 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

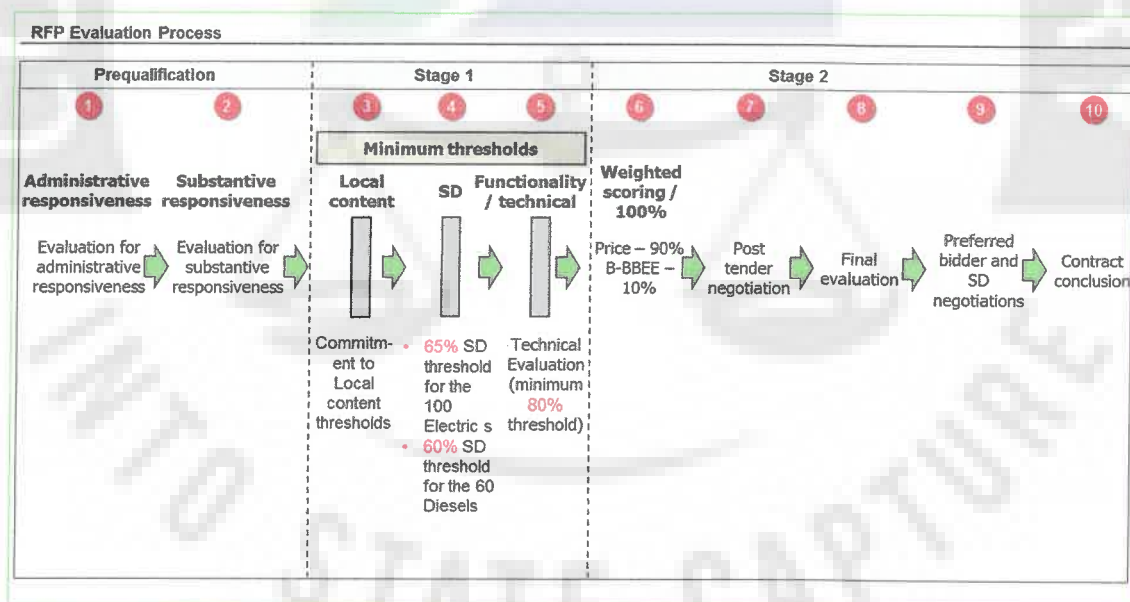
~~85.82.~~ Extend the current contract with General Electric South African Technologies (GESAT) for 80 Class 43 Diesel Locomotives.

~~86.83.~~ Confine and award to Mitsui & Co African Railway Solutions (PTY) LTD (MARS) ~~China South Rail (CSR) for 100 Class 19E Electric locomotives.~~

~~87.84.~~ The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

The Request for Proposals (RFP's) for the confinement to ~~Mars~~CSR and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below. The normal open tender process would follow the evaluation methodology indicated below.



The Evaluation Methodology for an open tender comprises the following steps:

- 1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders
- 2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met. SD pre-qualification criteria will be set at 65% for diesels and 70% for electrics based on recent learnings from the 1064 process.
- 3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA
- 4) ~~SD thresholds~~ – the SD thresholds of 65% and 60% set for Electric and Diesel locomotives respectively must be met for bidders to proceed to the next step of the evaluation.
- 5) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.
- 6) **A weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used determine final award
- 7) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers
- 8) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM
- 9) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future)
- 10) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.

88.85. The above process is modified for the proposed confinement and extension in that:

- a) Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.
- b) Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met. SD pre-qualification must be met
- c) Local content threshold must be met
- d) ~~SD threshold must be met~~
- e) **Technical evaluation (5)** is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Class 19E's Electric's) for incorporation.
- f) **Weighted Scoring Approach (6)** and
- g) **Final Evaluation (8)** is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

89-86. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.

90-87. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1)) are compulsory and are elaborated in following table:

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

91-88. In addition, the progressive Local Content for Designated Components (Section 3 (3.2)) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

92-89. The Supplier Development ~~targets~~ categories are set out in the table below. ~~They~~ The pre-qualification targets are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)	
Category	Weighting
Investment in plant – bidders monetary commitment to investment in plant and equipment	10%
Downstream procurement – bidders commitment to supporting 2 nd , 3 rd tier suppliers, etc.	15%
Skills development – supplier's commitment to skills development (number of people and monetary)	20%
Job creation / preservation – supplier's commitment to number of jobs maintained/created	30%
Small business promotion – supplier's commitment to usage of small businesses (monetary)	10%
ED/SD – bidders commitment to SD initiatives and ED development	15%
Total & Threshold > 65% for Electric and > 60% for Diesels	100%

Award Conditions – 100 Class 19 Electric Equivalent

93.90. Approval to award the business to ~~MARSCSR~~ is requested subject to SD compliance with the following:

- a) Local content meeting or exceeding 60% by value
- b) Compliance with ~~new~~ SD commitments with a minimum of 70% as measured in the SD Value Summary which forms part of the RFP
- ~~b)c) Compliance with new SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP~~
- e)d) Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco which will be used as a guide as is dependent on forex fluctuation.

Award Conditions – 80 Class 43 Diesels

94.91. Approval to award the business to GESAT is requested subject to SD compliance with the following:

- a) Local content meeting or exceeding 55% by value
- b) Compliance with ~~new~~ SD commitments with a minimum of 60% as measured in the SD Value Summary which forms part of the RFP
- e)b) Compliance with ~~new~~ SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP
- d)c) Transnet will also request a price range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco which will be used as a guide as is dependent on forex fluctuation.

FINANCIAL AND BUDGET IMPLICATIONS

95.92. The financial motivation and budget implications for the 100 ~~Class 19 Electric~~ and 80 Class 43 Diesels are discussed in detail in the respective submissions.

100 Class 19 Electric Equivalent

96-93. The 100 Class ~~19E~~ Electric Locomotives are summarized below and are based on previous experience with the Class 19E contract:

- a) A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)
- b) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100

- c) Based on the original Coal 81 mt model, the acquisition of the 100 Class ~~19E~~ Electric sustaining locomotives has a net present value (NPV) of R98.49m over 10 years.
- d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R59.1m.
- e) Approved infrastructure investments supporting the project totals R3 974 million.
- f) The cost is estimated and therefore a final price can only be given upon negotiation which is subject to Board approval.

80 Class 43 Diesels

97-94. The 80 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.

98-95. The 80 Class 43 Diesels are summarized below:

- a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current 7 year MDS capital plan. The diesels in particular will not meet the originally planned delivery.
- b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.
- c) The 80 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.
- d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet through a continuous replenishment of new locomotives.
- e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).
- f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 208	R 2 006					R221	R 2 435
Delivery		80						

- g) The acquisition of the 80 Class 43 Diesel preserves an NPV of R2 339 m based on the 1064 Locomotive Model.
- h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R3 017 m.

- i) The cost is estimated and therefore a final price can only be given upon negotiation which is subject to Board approval.

Financial Impact to Group

99.96. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.

100.97. For no delay the ratios are:

Ratios: Transnet Group - As is	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

101.98. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

102.99. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget 2013/14	Projections				
		2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

103.100. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.

104.101. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.

105.102. The program supports the sustainable development of a South African locomotive production industry.

106.103. Economic benefits include:

- a) Using idle capacity available in South Africa
- b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
- c) Ability to reinstate / retain local jobs as the skills pool already exists
- d) ~~Approximately 2 900 Significant~~ indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility ~~and 1076 (first, second and third tier) at MARS~~ with further jobs retained in downstream enterprises

PROJECT RISKS

~~107-104.~~ Both projects face several risks that could affect their overall economic viability:

~~108-105. Locomotive Delivery:~~ This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with ~~CSDPSD~~ conditions.

~~109-106. Lower volumes:~~ MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.

~~110-107.~~ The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.

~~111-108.~~ Exchange Rate Fluctuations:

- a) For the 100 Class ~~19E~~ Electric confined to ~~MARSCSR~~, the Yen / Rand Rate is ~~used as a forecast to be more stable than given that the Rand / Dollar rate Class 19E deal was used as a base.~~ Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
- b) For the 80 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.

~~112-109.~~ Tariffs not being realised:

- a) For the coal line current FOB prices for RBCT coal are around US\$90 per ton, well below the peak of over US\$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
- b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.

~~113-110.~~ Tariff exposure to commodity downturns:

- a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
- b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.

~~114-111.~~ **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The

reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.

115:112. Project interdependencies:

- a) The Ermelo bypass line is crucial to the new Coal Export operations and achieving 81mt with the additional 100 ~~Class-19E~~Electric equivalent locomotives. This line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.
- b) An interdependency for the 100 ~~Class-19E~~Electric locomotives is cascading locomotives to general freight. The 80 Class 43 Diesels do not have other project interdependencies

116:113. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.

RECOMMENDATION:

117-114. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

- a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
- b) To approve the investment in and procurement of 100 ~~Class 19E equivalent~~ electric locomotives required for the Coal Export Line in the estimated amount of R3 871 m (excluding borrowing costs):
- c) To approve the confinement and award of the procurement for the 100 ~~Class 19E equivalent electric~~ Electric locomotives.
- d) To approve the investment and change in the fleet plan to procure of 80 Class 43 diesel locomotives for General Freight in the estimated amount of R2 435 m (excluding borrowing costs):
- e) To approve an extension of the current Class 43 diesel locomotives contract for 80 additional locomotives:
- f) ~~Once negotiated to inform the Board of the final price / cost.~~
- g) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, award including process approval.

RECOMMENDED BY:

Siyabonga Gama
Chief Executive
Transnet Freight Rail

Date:

RECOMMENDED BY:

Gary Pita
Group Chief Supply Chain Officer
Transnet SOC

Date:

RECOMMENDED BY:**RECOMMENDED BY:**

Mohammed Mahomed
Group General Manager
Capital Integration
Transnet SOC

Date:

Anoj Singh
Group Chief Financial Officer
Transnet SOC

Date:

RECOMMENDED BY:

Brian Molefe
Group Chief Executive
Transnet SOC

Date:



ANNEXURE FC 9



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB <francis.callard@transnet.net>
Sent: 20 May 2014 10:50
To: Francis Callard Transnet Freight Rail JHB
Subject: Fw: URGENT CONFIDENTIAL - 100 and 60 Locomotives
Attachments: URGENT CONFIDENTIAL - 100 and 60 Locomotives.eml

On Thu Jan 23 15:50:18 SAST 2014, "Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net> wrote:

----- Original Message -----

From: "Francis Callard Transnet Freight Rail JHB" <francis.callard@transnet.net>

Sent: Thu Jan 23 15:50:18 SAST 2014

To: "Siyabonga Gama Transnet Freight Rail JHB" <Gama.Siyabonga@transnet.net>, "Thamsanqa Jiyane Transnet Freight Rail JHB" <Thamsanqa.Jiyane@transnet.net>

Subject: URGENT CONFIDENTIAL - 100 and 60 Locomotives

Dear Siya and Thami.

This is a difficult mail to write. In helping to format a recent version of the 100 and 80 locomotive business case on Wednesday 22nd, I noticed that the case was changed from that which I had submitted on Monday. This mail is because of the nature of those changes and the implications. The implications are technical and in the rationale for the acquisition which was speedy delivery to mitigate MDS volumes at risk.

Project Shongololo was predicated on 19 Equivalent locomotives. These locomotives are 26 ton per axle, 311 kN at 34km/h and are equipped with Toshiba T-Ethernet interoperability. It is this equivalency of power and interoperability that was at the heart of the business case.

The locomotives proposed are not explicitly specified but if a current and delivered design is the criteria, then it is the 20E. This locomotive is a 22 ton per axle locomotive, 279kN at 40 km/h (284kN at 30 km/h) and uses IEC61375 Standard for interoperability. This was specified as a GF locomotive. The implications are that the locomotive is not a heavy haul locomotive, is not as powerful and the locomotive calculations for Operation Shongololo no longer hold and the project and volume targets may be at risk. Furthermore the locomotives cannot interoperate with the current 19E locomotives adding further complexity to operations. To have the 20E interoperate with the 19E will require that they be fitted with wired DP at an additional cost of around R1m per locomotive.

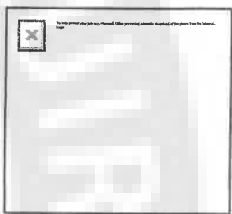

If the locomotives are of a new Co-Co design which will meet the power requirements then all the arguments relating to time saving using proven design and eliminating type testing no longer hold.

The TE assembly line for the current 20E has yet to produce a locomotive. If local assembly is the criteria then ramping up this line up to meet the 95 20E and this 100 delivery criteria is a risk that has not been – in my humble opinion – been visibly addressed. If imported as complete units then local content is problematic though the delivery program is achieved.

Respectfully for your information and consideration.

Regards

Francis



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ANNEXURE FC 10



fcallard@telkomsa.net

From: Siyabonga Gama Transnet Freight Rail JHB <Gama.Siyabonga@transnet.net>
Sent: 23 January 2014 21:22
To: Anoj Singh Corporate JHB
Subject: Re: Urgent: Signature on the Memo - Acquisition of 100 +60 Locomotives

Hi mr Singh,

I'm afraid the submission on the 100 locomotives is a mess and will need to be withdrawn..

The 20E locomotive is a 22 ton per axle locomotive suitable for GFB while the 19E locomotive is a 26 ton per axle beast suitable for the coal line. The two locomotive types are not interoperable. While CSR can make additional locomotives in China in a very short space of time to mitigate against MDS volume loss, this would be counter to our localization strategy, and would have to be spelt out. The 85 locomotives to be assembled by TE has not yet commenced, so we cannot yet make an argument that this would reduce the risk.

Any argument therefore on the 20E ought to have been a GFB argument which then means we accelerate GFB but we would need to go out on tender for 19E type locomotives. The 20E loco is not a heavy haul locomotive but it is a less powerful loco than the 19E.

Siyabonga Gama
 Chief Executive : TFR
 +27 11 5840510
 Sent from my iPad
 In God we trust, all others bring data!

On 23 Jan 2014, at 1:13 PM, "Anoj Singh Corporate JHB" <Anoj.Singh@transnet.net> wrote:

Hi Guys

Mr Gama is away on a strat session with his exco.

I will secure his signature tomorrow morning before the meeting.

Thx

A

From: Nokuthula Khumalo Transnet Corporate JHB
Sent: Thursday, January 23, 2014 12:59 PM
To: Siyabonga Gama Transnet Freight Rail JHB
Cc: Thuli Thanjekwayo Transnet Freight Rail JHB; Anoj Singh Corporate JHB; Theo Takane Corporate JHB; Thamsanqa Jiyane Transnet Freight Rail JHB
Subject: Urgent: Signature on the Memo - Acquisition of 100 +60 Locomotives

Dear Mr Gama,

We trust you are well.

May I please have your signature on the attached Memorandum.

Thank you and regards

Nokuthula

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Nokuthula

Khumalo

Deputy Group Company Secretary

Transnet SOC Ltd

<image002.png> (011) 308 2466

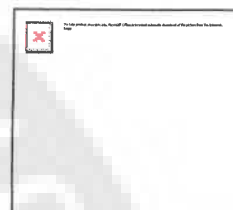
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<image004.png> 083 412 6821

<image005.png> nokuthulae.khumalo@transnet.net

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ANNEXURE FC 11



fcallard@telkomsa.net

From: Anoj Singh Corporate JHB <Anoj.Singh@transnet.net>
Sent: 24 January 2014 07:02
To: Siyabonga Gama Transnet Freight Rail JHB
Subject: Re: Urgent: Signature on the Memo - Acquisition of 100 +60 Locomotives

Let's us discuss this morning.

Thx

A

From: Siyabonga Gama Transnet Freight Rail JHB
Sent: Thursday, January 23, 2014 09:22 PM
To: Anoj Singh Corporate JHB
Subject: Re: Urgent: Signature on the Memo - Acquisition of 100 +60 Locomotives

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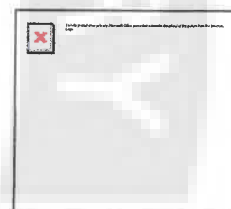
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ANNEXURE FC 12



fcallard@telkomsa.net

From: Anoj Singh Corporate JHB <Anoj.Singh@transnet.net>
Sent: 24 January 2014 07:00
To: Brian Molefe Transnet Corp
Subject: Fw: Urgent: Signature on the Memo - Acquisition of 100 +60 Locomotives

FYI

Thx

A

From: Siyabonga Gama Transnet Freight Rail JHB
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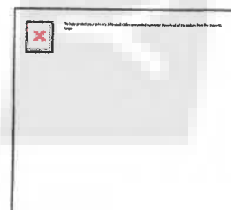
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ANNEXURE FC 13



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MINUTES OF THE MEETING OF THE BOARD ACQUISITIONS AND DISPOSALS COMMITTEE NO.14/1 HELD ON
24 JANUARY 2014 AT 11:50 IN BOARDROOM 4902, 49TH FLOOR, CARLTON CENTRE, JOHANNESBURG

Resolution No/
For Attention

1 **CONSTITUTION OF MEETING**

1.1 **Present**

Mr IM Sharma	Chairperson
Ms Y Forbes	Member
Mr ME Mkwana	Member
Ms NP Mnxasana	Member
Ms NR Njeke	Member

1.2 **In Attendance**

Mr B Molefe	Group Chief Executive
Mr A Singh	Group Chief Financial Officer
Ms NJ Mabandla	Group Executive: Group Legal Services
Ms P Difeto	General Manager: Office of the Group Chief Executive
Mr G Pita	Group Supply Chain Officer
Ms N Khumalo	Deputy Group Company Secretary

1.3 **Apologies**

Ms DLJ Tshepe	Member
---------------	--------

1.4 **Partial attendance**

Mr SI Gama	Chief Executive: Transnet Freight Rail
Mr CA Möller	Group Executive: Transnet Capital Projects
Mr T Jiyane	General Manager, Supply Chain: Transnet Freight Rail
Ms D Strydom	Senior Manager, Capital Planning and Governance: Transnet Freight Rail
Mr M Mahomed	General Manager: Group Capital Integration
Mr M Abdool	Chief Financial Officer: Transnet National Ports Authority
Mr R Basson	General Manager, Project Execution: Transnet Capital Projects
Ms N Ramchand	Chief Planner: Transnet National Ports Authority
Mr D Kalan	General Manager: Group Account Management
Mr O Mattheus	General Manager, Supply Chain: Transnet Engineering

1.5 **Welcoming and Signing of Attendance Register**

1.5.1 The Chairperson welcomed all members and attendees present at the meeting. Having noted that there was a quorum, declared the meeting duly constituted. He noted an apology from Ms Tshepe who was attending the World Economic Forum in Davos. The Attendance Register was circulated for signature.

1.6 **Adoption of Agenda**

1.6.1 The agenda was adopted as tabled.

2 **SAFETY BRIEFING AND EVACUATION PROCEDURE**

2.1 The Committee noted the safety and evacuation procedures from the safety card.

3 **DECLARATION OF INTERESTS**

3.1 The Declaration of Interests Register was circulated to all members and attendees for signature.

4 **LIST OF SUPPLY CHAIN ACRONYMS**

4.1 The Committee noted the revised list.

5 **MATTERS FOR DISCUSSION/APPROVAL**

5.1 **Supply of 465 New Diesel Locomotives for the General Freight Business**

Messrs Gama and Jiyane joined the meeting at 11:55.

5.1.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to:

- Note an update to the Committee on the progress on the tender evaluation process.
- Review and recommend that the Board approves the tender evaluation process and methodology.
- Review and recommend that the Board approves the shortlisted bidders as a result of the evaluation process for negotiations and award of business.
- Recommend that the Board delegates authority to the GCE to sign, approve and conclude all necessary documents to give effect to the requested resolutions.

5.1.2 Management informed the Committee that Bidders T1 (*CNR Consortium/Unincorporated Joint Venture*) and T4 (*General Electric South Africa Technologies (Pty) Ltd*) obtained the highest scores in the evaluation process. The plan was to split the contract amongst the 2 bidders in equal terms. The value of the tender award is estimated at R13.6bn excluding VAT, hedging, escalation costs and costs of TE's scope of work. All bidders met the minimum threshold of 80% and complied with all the mandatory requirements in specification as indicated in the table below:

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T4
1	BBBEE SCORE CARD	10.00	6.00	0.00	10.00	9.00
2	SD	20.00	13.23	16.12	14.36	13.34
3	Further Recognition Criteria (Current)	5.00	0.60	0.36	1.90	1.31
4	Further Recognition Criteria (Future)	5.00	1.44	0.99	1.32	1.98
5	Price (Total Cost of Ownership (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation)	60.00	20.48	19.65	13.35	37.13
	TOTAL SCORE	100.00	41.75	37.12	40.93	62.76

5.1.3 Management informed the Committee that in addition to scoring the highest scores, both Bidder T1 and Bidder T4 will provide benefits to the Company as per respective proposals. The benefits were highlighted as follows:

- The Local Content committed by both bidders was higher than the Company's requirement of 55%. Commitment for Bidder T1 was 61.1% and Bidder T4 was 55.5%.
- Bidder T1 scored 92.9% on technical evaluations compared to the stipulated 80% threshold.
- The Supplier Development commitment for Bidder T1 was 66.1%, and for 66.7% for Bidder T4 against a threshold of 40%.
- Bidder T4 proposed the best delivery schedule of all the bidders.
- Bidders T1 and T4 provided the best Total Cost of Ownership in terms of the elements which were considered at the end.
- While the scoring for Bidders T1 and T3 seemed very close, the price for Bidder T3 was 32% higher than the price offered by Bidder T1.

5.1.4 Management informed the Committee that the scope of work for TE will be developed as part of the post tender negotiations. On conclusion of the negotiation process, the contractual information and maintenance agreements will be submitted to the Committee for recommendation to Board. Management motivated for a split of business, due to the following reasons:

- There was an imminent risk of high dependency on Bidder T4 due to previous locomotive transactions. This might potentially lead to a promotion of monopolistic environment, and will reduce the Company's ability to mitigate Total Cost of Ownership over the long-term. Allocating 50% of the contract to Bidder T1 will allow

CONFIDENTIAL

3

Resolution No/
For Attention

this risk to be mitigated.

- The allocation will promote localisation and Supplier Development as there will be critical mass for Bidder T1.
- Delivery risk on Bidder T1 will be mitigated as Bidder T4 has previously demonstrated capability to deliver ahead of schedule.

5.1.5 Management advised the Committee that the shortlist was carried out after the best and final offer by the bidders, there was therefore no probability of an exorbitant budget for the Company. Management further informed the Committee that the decision to split the award to 2 companies was informed by various factors, and the Company was within its rights to do so, as per provisions of the RFP. The Committee was advised that production will commence within a period of 12 months from prototype stage, and delivery was anticipated at 20 units per month. Post difficulties that will be experienced from 2014 onwards. A Claw-back can be expected by 2017.

5.1.6 Management informed the Committee that the contract could not be awarded to more than 2 entities so as to properly manage training and inventory costs. Moreover, Localisation would have posed a challenge if the contract was awarded to more than 2 bidders. Mr Mkwanazi cautioned Management to adequately manage costs going forward. Management assured the Committee that the costs will be hedged. During the negotiations process, parties will agree on escalation costs and the bearer of such. A Financial Risk Management Framework was being developed specifically for 1064 transaction. The Risk matrix and mitigation measures will be tabled to the Committee for consideration. Further, Management will share the Total Costs of Ownership with the Committee once there is finalisation on the maintenance aspect of the project. Contract negotiations will be concluded by 7 March 2014. Management indicated that performance bonds proved to be problematic due to the state of the insurance industry, sighting the Medupi project as an example. Accordingly splitting the award will contribute to risk mitigation. It will be crucial to ensure that contract negotiations and agreements on maintenance is handled in a sensitive manner. Management informed the Committee that Class 15E and 19E were under warranty, and there were no maintenance challenges at this stage. The maintenance cost will only pose a challenge when the 3-year warranty expires post 2015.

5.1.7 The Committee **agreed** that the final Total Cost of Ownership will be tabled to the Committee for consideration in due course, and further submitted to Board for information purposes.

Mr Molefe

RESOLVED that the Committee recommended that the Board approves:

- The tender evaluation process and methodology for the 465 Diesel Locomotives.
- The shortlist of the award of business to Bidder T1 and Bidder T4 for the supply of 465 Diesel Locomotives, subject to successful contract negotiations.
- The split of the award of business to the above suppliers on equal basis, subject to a performance clause in contract.
- Delegated authority to the GCE to sign, approve and conclude all necessary documents to give effect to the resolution.

14/1/1

The Chairperson requested that Items 5.9, 5.2, 5.3, 5.4, 5.5, 5.7, 5.6, 6.1, 5.8, 6.2, 6.3, 7, 8, 9 and 10 be dealt with next. These minutes reflect the order of the meeting

5.9 Acquisition of 599 Electric Locomotives

5.9.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to:

- Note the update on the progress on the tender evaluation process.
- Review and recommend that the Board approves the tender evaluation process and methodology.

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- Review and recommend that the Board approves the shortlisted bidders as a result of the evaluation process for negotiations and award of business.
- Review and recommend that the Board delegate authority to the GCE to sign, approve and conclude all necessary documents to give effect to the above resolutions.

5.9.2

Management informed the Committee that Bidders T1 (*Bombardier Transportation (Pty) Ltd*) and T2 (*CSR E-LoCo Supply (Pty) Ltd*) obtained the highest scores in the evaluation process. The plan is to split the contract amongst the 2 Bidders on a 60/40 basis. The total tender award is estimated at R19.8bn excluding VAT, hedging, escalation costs and costs of TE's scope of works. All bidders met the minimum threshold of 80% and complied with the mandatory requirements in specification, as indicated in the table below:

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T5	T7
1	BBBEE SCORE CARD	10.00	8.00	6.00	4.00	8.00	6.00
2	SD	20.00	15.50	16.15	15.12	16.67	15.89
3	Further Recognition Criteria (Current)	5.00	0.88	0.47	0.18	1.66	2.16
4	Further Recognition Criteria (Future)	5.00	0.94	2.11	1.26	2.45	1.82
5	Price (Total Cost of Ownership (TCO) excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation)	60.00	40.65	36.60	11.85	15.83	26.78
	TOTAL SCORE	100.00	65.96	61.33	32.41	62.76	52.64

5.9.3

Management informed the Committee that in addition to scoring the highest scores, both Bidders T1 and T2 will provide benefits to the Company as per respective proposals. The benefits were highlighted as follows:

- The Local Content committed by both Bidders was higher than the stipulated threshold of 60%. Bidder T1 committed 69.8% and Bidder T2 was at 68.2%.
- Bidders T1 and T2 scored the highest points on technical evaluations.
- The Supplier Development commitment for T1 was 77.5%, and T2 was at 80.75%.
- The Delivery Schedule was aligned to the Company's requirements.

5.9.4

Management highlighted that the outcome of the best and final offer as follows:

- Bidder T1 offered to increase procurement to small businesses by R50m and technology transfer through skills development training and support by R10m. In addition, Bidder T1 offered R455 000 reduction in price per locomotive based on a revised foreign currency content percentage.
- Bidder T2 offered a discount of R2.25m per locomotive, including a revised foreign currency content amount, thus offering the best price.

5.9.5

Management informed the Committee that the MDS volumes as contained in the Corporate Plan were at risk due to delays in the award of the 599 Electric Locomotives. This emanated from the PPPFA challenges. As risk mitigation, Management suggested that more than 1 supplier be appointed to supply the required locomotives to reduce delivery risk, and enhance the Company's ability to meet MDS volumes. It was therefore recommended that 2 suppliers be considered to manufacture the required locomotives. Management's view was supported by, amongst others the following reasons:

- To promote standardisation of the locomotive fleet to ensure that the Total Cost of Ownership was minimised.
- To allow for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions.
- To allow for critical mass that would promote localisation and programmatic procurement.
- To allow for flexibility in supplier options in future as it prevents monopoly behaviour.
- To reduce the legal risk of the transaction.
- To reduce the overall contract risk of the transaction due to unforeseen circumstances.

5.9.6

Management proposed a 60/40 split (60% allocated to Bidder T2, and 40% to Bidder T1)

motivated by the following:

- a) Bidder T2 has demonstrated its ability to deliver on schedule by delivering the first prototype on time. The next 10 locomotives will also be delivered within schedule. These locomotives form part of the 95 Locomotive contract. Bidder T1 has no track record within the Company.
- b) The split reduces delivery risk.

5.9.7 The Committee **agreed** that the final Total Cost of Ownership will be tabled to the Committee for consideration in due course, and further submitted to Board for information purposes.

Mr Molefe

RESOLVED that the Committee recommended that the Board approves:

- The tender evaluation process and methodology for the 599 Electric Locomotives.
- The shortlist of the award of business to Bidder T1 and Bidder T2 for the supply of 599 Electric Locomotives, subject to successful contract negotiations.
- The split of the award of business to the above suppliers by a 60% allocation to Bidder T2 and 40% allocation to Bidder T1, subject to a performance clause in contract.
- The delegation of authority to the GCE to sign, approve and conclude all necessary documents to give effect to the resolution.

14/1/2

5.2 Acquisition of additional 100 Class 19E Electric and 60 Class 43 Diesel Locomotives

5.2.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to:

- a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 Locomotives.
- b) Recommend that the Board approves the investment in and procurement of 100 Electric Locomotives required for the Coal Export Line estimated at R3.8bn (excluding borrowing costs).
- c) Recommend that the Board approves the confinement and award of the procurement for the 100 Electric Locomotives.
- d) Recommend that the Board approves the investment and amendment of the fleet plan to procure 60 Class 43 Diesel Locomotives for General Freight estimated at R1.8bn (excluding borrowing costs).
- e) Recommend that the Board approves an extension of the current Class 43 Diesel Locomotives contract for 60 additional locomotives.
- f) Recommend that the Board delegates authority to the GCE to sign and conclude all relevant documents to give effect to the resolution, including the award and process approval.

5.2.2 Management informed the Committee that it was decided that a 26t Heavy Haul line by GE would perform better than a Class 19E Locomotive by *Mitsui*. Further, it seemed that GE delivers faster than *Mitsui*. Management motivated for the confinement in favour of GE. This was motivated by a submission that was previously withdrawn due to reputational risk issues that had emanated from an old newspaper article. Management requested for a contract extension for Class 43E Diesel Locomotives by CSR. The Chairperson stated that the previous submission was withdrawn prior to the commencement of the 27 October 2013 meeting, due to concerns that the confinement was proposed for Class 19E Locomotives from *Mitsui* (which had won a contract in 2006). The Company extended the contract for 15E Locomotives in 2010, and again confined to the same supplier. Media raised concern that the Company had approved 2 confinements since the 2006 contract award. However, the Company has never confined to CSR, therefore there should be no adverse publicity. The proposed confinement was in compliance to the provisions of the approved Procurement Procedure Manual. CSR had the capacity to produce 5 locomotives a day; it can therefore produce 100 locomotives for the Company within a short space of time. Assurance was given to the Committee that the

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confinement process was audited by TIA.. Mr Mkwanazi advised the Committee to adhere to localisation principles. Some locomotives can be produced in the People's Republic of China. However, some should be built in the Country. Management stated that the Company had comfort in the pricing and technical score for the process. The project will go through a PFMA approval process should it exceed the R3.9bn materiality threshold.

5.2.3 Ms Forbes was authorised to have an offline discussion with Management on the proposed projections.

Mr Singh

5.2.4 The Committee **agreed** that the final Total Cost of Ownership will be tabled to the Committee, and submitted to Board for information purposes.

Messrs Molefe/
Gama**RESOLVED** that the Committee:

- a) Noted the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives.
- b) Recommended that the Board approves the investment in and procurement of 100 Electric Locomotives required for the Coal Export Line estimated at R3.8bn (excluding borrowing costs).
- c) Recommended that the Board approves the confinement and award of the procurement for the 100 Electric Locomotives.
- d) Recommended that the Board approves the investment and amendment of the fleet plan to procure 60 Class 43 Diesel Locomotives for General Freight estimated at R1.8bn (excluding borrowing costs).
- e) Recommended that the Board approves an extension of the current Class 43 Diesel Locomotives contract for 60 additional locomotives.
- g) Recommended that the Board delegates authority to the GCE to sign and conclude all relevant documents to give effect to the resolution, including the award and process approval.

14/1/3

5.3 **IT Services Contract**

5.3.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was:

- To update the Committee on the current status of the IT Services (*T-Systems*) contract.
- To highlight the different options for the IT Services (*T-Systems*) contract, and the high level RFP strategy to the Committee.
- To request the Committee to recommend that the Board delegates authority to the GCE to extend the *T-Systems* contract at his discretion with a period of up to 24 months in 6 monthly intervals.

5.3.2 Management shared the available options with the Committee. There were extensive debates on the advantages and disadvantages for the contract extension. The following factors, amongst others, were considered:

- Risk Assessment.
- Proposed timelines for options 2, 3 and 4 respectively.
- Proposed procurement strategy.
- Management's recommendation.

5.3.3 Management indicated that the Company was plagued with operational challenges and skills shortage. The Company was not in a position to undergo a simultaneous transition of both the network and IT services within a period of 6 months, without causing adverse effect on the business. Management advised that the previous situation deteriorated due to lack of diligent contract management on the side of the Company. There has been improvement on contract management with close monitoring and clear accountability. Ms Forbes commended Management on its acknowledgement of risks and management thereof.

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For Attention**RESOLVED** that the Committee:

- Noted the current status of the IT services (T-Systems) contract.
- Noted the different options for the IT Services contract and the high level RFP Strategy.
- Recommended that the Board delegates authority to the GCE to extend the IT Services (T-Systems) contract at his discretion, with a period of up to 24 months in 6 monthly intervals, from 31 December 2013.

14/1/4

5.4 **Manganese Expansion to 16mt Business Case Capital and Procurement Strategy**

Mses Strydom and Ramchand and Messrs Mahomedy, Abdool, Kalan and Basson joined the meeting at 14:00.

5.4.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to recommend that the Board:

- Approves the 16mt manganese expansion project to the Port of Ngqura at an escalated cost of R26.6bn (excluding borrowing costs).
- Notes that R8.6bn of rail investments have been pre-approved by means of separate investment cases with Rail Phase 1 at a cost of R2.3bn, and Rolling stock estimated at R6.3bn.

5.4.2 Management informed the Committee that the remaining investment was earmarked for the manganese export rail capacity from 5.5mt to 16mt, estimated at R9.3bn (escalated). The investment in the new 16mt bulk manganese terminal in the Port of Ngqura comprised of Port infrastructure estimated at R566m, and Port landside investments (terminal operator) totalling R8bn.

5.4.3 Management informed the Committee that the terminal was under the control and management of TPT, and requested the Committee to approve the high level sourcing strategies for the remaining commodities. The Company was awaiting finalisation of its request to transfer the current operating licence from the Department of Transport. Furthermore the Committee was requested to subdelegate the approval of the individual strategies that fall within the Committee's delegation of authority to the GCE. The Committee noted that the above approvals were subject to the following:

- Section 54 PFMA approval by the DPE;
- Conclusion of the "Take or Pay" Contract by no later than 12 months post section 54 PFMA approval; and
- The application of section 56 process for the recovery of capital, if TPT is not appointed as the operator.

5.4.4 Management advised that the 16mt expansion to the Port of Ngqura was the best available option to provide capacity of 16mt ahead of demand, and to defend SA's position as the leading exporter of manganese ore globally. The transaction has a positive NPV for both TFR and TNPA. Management informed the Committee that customers undertook to commit to long-term contracts, on proviso that the Company committed on its capacity. Management assured the Committee that it had reached 100% maturity in the design, capital project planning. Lessons learnt from NMPP will be utilised in the execution of the proposed project. Contracting will be key with penalties in cases of non-adherence to timelines or non-performance. There will be emphasis on training and skills transfer. The owners' team was established, with the executing team sorted and EPCM in place. Management undertook to review the Mamatwan project for adequacy.

Mr Molefe

RESOLVED that the Committee recommended that the Board:

- Approves the 16mt manganese expansion project to the Port of Ngqura at an escalated cost of R26.6bn (excluding borrowing costs).
- Notes that R8.6bn of rail investments were pre-approved by means of separate investment cases with Rail Phase 1 estimated at R2.3bn, and Rolling stock estimated

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at R6.3bn.

- Approves the remaining investment earmarked for the manganese export rail capacity from 5.5mt to 16mt estimated at R9.3bn (escalated).
- Approves the investment in the new 16mt bulk manganese terminal in the Port of Ngqura comprising of Port infrastructure to the value of R566m, and Port landside investments (terminal operator) estimated R8bn.

Further **RESOLVED** that the Committee:

- Approved the sourcing strategy for the port Engineering, Procurement and Construction Management ("EPCM") services.
- Approved the high level sourcing strategies for the remaining commodities.
- Delegated authority to the GCE to approve the individual sourcing strategies that are within the Committee's delegation of authority.
- Noted that the above resolutions are subject to the following:
 - Section 54 PFMA approval by DPE.
 - Conclusion of "Take or Pay" agreement no later than 12 months after section 54 approval.
 - The implementation of a section 56 process must allow for the recovery of capital if TPT is not appointed as the operator.
 - The amendment of the NPV of R12pt on paragraph 51 of the submission.

14/1/5

5.5 Manganese Expansion to 16mt EPCM Procurement Strategy (Rail)

5.5.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to:

- Approve the Sourcing Strategy for the appointment of an EPCM service provider for FEL4 for the Manganese 16mt TFR expansion project for the Rail Execution Phase 2 (Infrastructure).
- Delegate authority to the GCE to approve the RFP, procurement process approval and the contract award for the Manganese 16mt TFR expansion project for the Rail Execution Phase 2 (Infrastructure).

5.5.2 Management informed the Committee that the estimated project value was R9.3bn, and the approximate EPCM cost was R1.1bn. There were extensive deliberations on, amongst others, the owners' team, risk mitigation, governance, sourcing and contracting strategy and Supplier Development strategy. Management advised the Committee that part 1 of the project will commence simultaneously with the section 54 PFMA application. Ms Forbes congratulated the team on the visibility of an integrated business case. Mr Mkwana requested clarity on the number of EPCMs that will be involved in the project.

Mr Molefe

RESOLVED that the Committee:

- Approved the Sourcing Strategy for the appointment of an EPCM service provider for FEL4 for the Manganese 16mt TFR expansion project for the Rail Execution Phase 2 (Infrastructure).
- Delegated authority to the GCE to approve the RFP, procurement process approval and the contract award for the Manganese 16mt TFR expansion project for the Rail Execution Phase 2 (Infrastructure).

14/1/6

Mses Strydom and Ramchand and Messrs Mahomed, Abdool, Kalan and Basson were excused from the meeting at 14:52.

5.6 EMD Locomotives Fleet Spare Parts Procurement Strategy

The matter was dealt with as Item 5.6 below item 5.7.

5.7 Rails, Turnouts and Welding Services request to Negotiate and Award

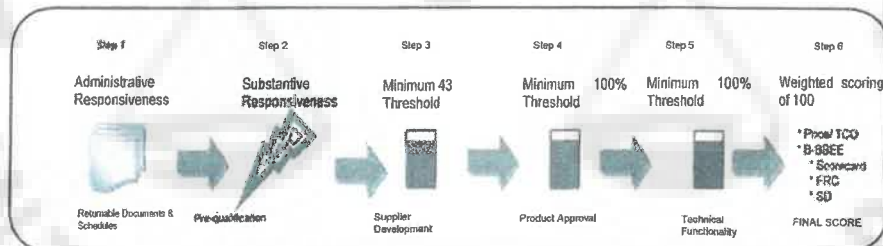
5.7.1 Management took the Committee through the submission as contained in the pack. The

submission was taken as read. The purpose of the submission was to request the Committee to recommend that the Board approves the following:

- Request to negotiate with *Tata Steel France Rail South Africa* ("Tata Steel") and *Guma Investment Holdings* ("Guma") for the supply of rails for a period of 2 years, based on both bidders achieving the highest rankings in the tender evaluation process for their respective bids for the following rail lengths and profiles; 50m or 60m – 60kg, 57kg and 48kg Head Hardened; 60m – 60kg, 57kg and 48kg Grade 900; 19m – 51kg Grade 900.
- Request to negotiate with *VAE South Africa* ("VAE") the supply of welding services to both *Tata Steel* and *Guma* for a period of 2 years at an estimated value of R95m.
- Split award of business for the supply of rails to *Tata Steel* and *Guma* for the supply of the rail lengths and profiles (as indicated above) for a period of 2 years, based on the outcome of the negotiations. The total estimated value is R2.8bn for 2 years (excluding escalations and exchange rate fluctuations). The business will be awarded based on the pricing per meter for the required rail lengths and profiles.
- Award of business for the manufacture and supply of turnouts and components for a 2-year period for the total estimated value of R1bn (excluding escalations and exchange rate fluctuations). VAE will be awarded business for the first 12 months and thereafter, subject to the approval post the testing process and successful negotiations, business will be awarded to either 2 or 3 of the bidders (*VAE*, *Guma* and *Vossloh Cogifer*) for the remaining 12 month period. The 12 month award to VAE is aimed at allowing sufficient time for the design review, design approval, testing, approval, manufacture and supply of turnouts by the approved shortlisted bidder/s to TFR.
- Delegate authority to the GCE to sign all relevant documentation and amendments (i.e Letter of Intent, Contracts and subsequent amendments) pertaining to this matter on behalf of the Company.

5.7.2 Management informed the Committee that the RFP for the National Supply of Rails, Turnouts, Turnout Components and Welding Services for a Period of 24 Months, was issued on 2 July 2012. The closing date was extended from 31 July 2012 to 28 August 2012 due to the requests from bidders. A total of 8 proposals were received, from the commencement of the open tender process, VAE reduced its pricing by 30%.

5.7.3 Management followed a 6-step evaluation methodology as part of the evaluation process, in line with the RFP provisions. The methodology is illustrated in the diagram below:



5.7.4 Management undertook to provide the Committee with information on *Guma* as a supplier, its partners, commitments made by the partners and the plan of execution at the next meeting.

Messrs Molefe/
Gama

RESOLVED that the Committee recommended that the Board approves the following:

- Request to negotiate with *Tata Steel France Rail South Africa* ("Tata Steel") and *Guma Investment Holdings* ("Guma") for the supply of rails for a period of 2 years based on both bidders achieving the highest rankings in the tender evaluation process for their respective bids for the following rail lengths and profiles; 50m or 60m – 60kg, 57kg and 48kg Head Hardened; 60m – 60kg, 57kg and 48kg Grade 900; 19m – 51kg Grade 900.
- Request to negotiate with *VAE South Africa* ("VAE") the supply of welding services to both *Tata Steel* and *Guma* for a period of 2 years at an estimated value of R95m
- Split award of business for the supply of rails to *Tata Steel* and *Guma* for the supply of

the rail lengths and profiles (as indicated above) for a period of 2 years based on the outcome of the negotiations. The total estimated value is R2.8bn for 2 years (excluding escalations and exchange rate fluctuations). The business will be awarded based on the pricing per meter for the required rail lengths and profiles.

- Award of business for the manufacture and supply of turnouts and components for a 2 year period for the total estimated value of R1bn (excluding escalations and exchange rate fluctuations). VAE will be awarded business for the first 12 months and thereafter, subject to the approval post the testing process and successful negotiations, business will be awarded to either 2 or 3 of the bidders (VAE, Guma and Vossloh Cogifer) for the remaining 12 month period. The 12 month award to VAE is to allow sufficient time for the design review, design approval, testing, approval, manufacture and supply of turnouts by the approved shortlisted bidder/s to TFR.
- Delegation of authority to the GCE to sign all relevant documentation and amendments (i.e Letter of Intent, Contracts and subsequent amendments) pertaining to this matter on behalf of the Company.

14/1/7

Messrs Gama and Jiyane were excused from the meeting at 15:03.

5.6 EMD Locomotives Fleet Spare Parts Procurement Strategy

Messrs Vallihu and Mattheus joined the meeting at 15:05.

5.6.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to approve the following:

- The Transnet Engineering Diesel Locomotive Spare Parts Supplier(s) to maintain TFR's Electro-Motive Diesel Locomotive fleet procurement strategy.
- The Transnet Engineering Diesel Locomotive Spare Parts Supplier(s) to maintain TFR's Electro-Motive Diesel Locomotive fleet evaluation criteria.
- The proposed Procurement timelines.
- The delegation of authority to the Chief Executive of Transnet Engineering for the appointment of Diesel Locomotive Spare Parts Supplier(s) to maintain TFR's Electro-Motive Diesel Locomotive fleet to approve the RFP and documentation within the procurement process, issue the RFP to the market, conduct evaluation and shortlist, conduct negotiations/due diligence, and all necessary documentation leading to the final contract award.

5.6.2 Management informed the Committee that TE will need to procure spare parts and components, over a 5 year period, as illustrated in the table below (Estimated Contract Value):

Period (Year)	FY	Spend per FY (ZAR) Confinement	Spend per FY (ZAR) Open Market	Total Spend per FY
1	2014/15	148 837 085	112 808 436	R 261 645 521
2	2015/16	154 663 531	117 224 487	R 271 888 018
3	2016/17	142 066 354	107 676 679	R 249 743 033
4	2017/18	116 024 638	87 938 821	R 203 963 459
5	2018/19	120 366 826	91 229 906	R 211 596 732
Contingency	10%	68 195 844	51 687 833	R 119 883 676
Total		750 154 277	568 588 162	R1 318 742 439

5.6.3 The Committee **agreed** on a 60/40 split to mitigate for volatility. Management stated that there was a provision for new entrants, and a 40% allocation for localisation. Mr Mkwanzai advised the Committee to consider component manufacturing to gain market share for the Company's programmes in the Continent.

RESOLVED that the Committee approved the following:

- The Transnet Engineering Diesel Locomotive Spare Parts Supplier(s) to maintain TFR's Electro-Motive Diesel Locomotive fleet procurement strategy EMD locomotives

fleet spare parts procurement strategy.

- The Transnet Engineering Diesel Locomotive Spare Parts Supplier(s) to maintain TFR's Electro-Motive Diesel Locomotive fleet evaluation criteria.
- The proposed procurement timelines.
- Delegated authority to the GCE for the appointment of Diesel Locomotive Spare Parts Supplier(s) to maintain TFR's Electro-Motive Diesel Locomotive fleet to approve the RFP and documentation within the procurement process, issue the RFP to the market, conduct evaluation and shortlist, conduct negotiations/due diligence, and all necessary documentation leading to the final contract award.

14/1/8

Messrs Vallihu and Mattheus were excused from the meeting at 15:18.

6.1 NMPP Quarterly Report

Mr Möller joined the meeting at 15:20.

6.1.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to submit a quarterly report on the NMPP to the Committee for noting.

6.1.2 Management informed the Committee about the uneven foundation at the Tanks, which may impact to project delays. The Tank's weight is unevenly distributed due to construction faults. A comprehensive update which will inform the estimated date of completion for TM1 will be available by 28 February 2014. Timelines for TM2 were still on track. Management undertook to compile a comprehensive report on the Tank related challenges, proposed solutions and total assessment on the change in timelines and costs for the Shareholder Minister's consideration by 7 February 2014.

6.1.3 Management provided an update on the legal claims by Group Five and informed the Committee that the Adjudicator had ruled in favour of the Company. The Engineering scope creep was estimated at R712m.

Mr Möller was excused from the meeting at 15:40.

The Committee noted the Report.

5.8 Review of the iSCM Shareholder's Compact Targets including B-BBEE target for 2014/15FY

5.8.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to request the Committee to recommend the proposed procurement and transformation targets for 2014/15FY as informed by the Shareholder's Compact. The proposed targets will be negotiated with DPE. Management undertook to share the proposed Shareholder's Compact Framework at the Board Strategy Workshop on 27 and 29 January 2014.

The proposed procurement and transformation targets were detailed in the table below:

KPI	Unit of Measure	14 / 15	15 / 16	16 / 17	17 / 18	18 / 19	19 / 20	20 / 21	21 / 23	22 / 24	23 / 24
Technology Transfer / IP	% of qualifying SD related contracts	1	1	1.25	1.25	1.50	1.50	1.75	1.75	1.80	1.80
Investment in Plant	% of qualifying SD related contracts	1	1	1.25	1.25	1.50	1.50	1.75	1.75	1.80	1.80
Export promotions	% of qualifying 3SD related contracts	0.5	0.5	0.75	0.85	1	1	1.15	1.25	1.25	1.25
Local Content	% of total spend	75	75	75	78	78	80	80	80	82	82
CSDP / SD Value	% of contract value subject to SD value	37	37	39	39	41	41	43	43	45	82
Skills Development	% of SD contracts and internal	3	3	4	4	5	5	6	6	7	45
BBBEE	% of TMPS	60	65	70	72.5	75	77.5	80	82.5	85	7
Black Women Owned	% of TMPS	3	3	4	4	5	5	6	6	6	85
Black Owned	% of TMPS	12	12	12	13	13	14	14	15	15	6
Black Youth Owned	% of TMPS	0.5	0.5	0.5	0.75	0.75	1	1	1.25	1.25	15
QSE/EME	% of TMPS	10	12	12	13	13	14	14	15	15	1.25

Messrs Molefe
Möller

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People living with disability	% of TMPS	0.125	0.125	0.2	0.25	0.25	0.4	0.4	0.5	0.5	15
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RESOLVED that the Committee recommended that the Board approves the proposed procurement and transformation targets for the 2014/15FY as informed by the Shareholder's Compact.

14/1/9

5.9 Acquisition of 599 Electric Locomotives

5.9.1 The matter was dealt with as Item 5.9 below Item 5.1.

6. MATTERS FOR NOTING

6.1 NMPP Quarterly Report

6.1.1 The matter was dealt with as Item 6.1 below item 5.6

Mr Mahomedy joined the meeting at 15:50.

6.2 Capital Spend Update

6.2.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to provide an update on the monthly capex status. Further discussions on the capital programme were planned for the Board Strategy Workshop scheduled for 27 and 29 January 2014..

The Committee noted the update.

Mr Mahomedy was excused from the meeting at 15:55.

6.3 B-BBEE Spend Report

6.3.1 Management took the Committee through the submission as contained in the pack. The submission was taken as read. The purpose of the submission was to provide an update to the Committee on the Company's performance in relation to B-BBEE. There was a 34% increase in actual Black spend compared to 26% in the prior year.

6.3.2 Management informed the Committee that the Company was 67% compliant with the revised B-BBEE Codes compared to 90% based on the current spend. Management advised that when the B-BBEE Codes are introduced, the public sector would be worse off compared to companies in the private sector in terms of B-BBEE achievements. The Committee raised concern on the number of non-compliant Level 9 companies that were listed as suppliers. However, Management indicated that the Report captured the status during the window when the supplier's certificate had expired and undergoing renewal. During the certificate expiry period, the Company has to report the affected suppliers as Level 9.

6.3.3 Management provided feedback on the proposed meeting with the DPE Director-General on the Company's role as an enabler of transformation; and the application to request a B-BBEE exemption. The matter has been delegated to DPE officials who will meet with Management.

6.3.4 Management informed the Committee that a meeting has been scheduled with National Treasury for 5 February 2014 to engage on the possibility of "Set Asides".

The Committee noted the Report.

7 APPROVAL OF THE MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2013

7.1 The minutes were approved; subject to input from Ms Tshepe.

8 MATTERS ARISING FROM THE MINUTES OF THE PREVIOUS MEETING

8/1 **Procurement of 1064 locomotives for the TFR General Freight Business:** The terms of reference for the appointment of an independent expert will be formulated and finalised by the Board Steering Committee comprised of the Committee Chairperson, Chairperson

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Resolution No
For Attention

of Risk and Mr Singh. The Board Steering Committee will gauge the skills required and appoint a service provider. Going forward the expert will assist the Board. Management will finalise the process of appointing independent expert. A conversation on how the matter will be finalised will be communicated with the Chairperson

8/1/1 The matter is in-progress.

Mr Singh

8/2 **TFR Update on the 1064 transaction:** The Chairperson shared the sentiments of the GCE and stated that a confinement, prompted by the urgency of the transaction was tabled at the Committee. He requested Management to coordinate with the GCE's Office to expedite the matter prior to re-tabling it to the Committee

8/2/1 The matter is in-progress.

Messrs Molefe
Gama

8/3 **TFR: Update on the 1064 transaction:** The Committee would like sight of the steps being taken into the finalisation of the transaction; and those already completed

8/3/1 The matter is in-progress.

Messrs Molefe.
Gama

8/4 **Port of Durban Island View Strategy:** Port of Durban Island View Strategy: Management undertook to make amendments to the strategy as per the Committee's recommendations:

- Provide clarity and incorporating the criteria used to determine the lease agreements;
- Provide clarity around the extension process;
- Highlight systems and process to be implemented to provide oversight;
- Introduction and facilitation of emerging players into the industry (highlight the objectives of the introduction of B-BBEE); and
- Timelines and milestones linked to the project

8/4/1 The matter was deferred to the next meeting.

Messrs Molefe/
Morwe

8/5 **Second NMPP Quarterly Report (till 30 September 2013) in terms of Progress, Corporate Social Investment, Job Creation and Supplier Development:** Mr Mkwana cautioned Management to be alert on sophisticated "additions" which were not part of the original design as scope creep may have adverse financial impact on the NMPP budget. He advised Management to opt for an establishment of a separate warrant number for items that were not part of the initial scope. The NMPP budget should remain at R23.4bn. Management undertook to submit proposals on system and automation and the budget implications by December 2013

8/5/1 The matter was discussed and the revised figures will be available by 28 February 2014.

Messrs Molefe/
Möller

8/6 **Second NMPP Quarterly Report (till 30 September 2013) in terms of Progress, Corporate Social Investment, Job Creation and Supplier Development):** He requested Management to pursue Group 5 with litigation on matters of non-performance

8/6/1 The matter has been finalised.

8/7 **Second NMPP Quarterly Report (till 30 September 2013) in terms of Progress, Corporate Social Investment, Job Creation and Supplier Development:** The Chairperson requested Management to table a Report to the Committee on the progress made on actions that needed to be taken against negligent individuals and Companies on the NMPP project

The matter is in-progress.

Messrs Molefe/
Möller

8/8 **Status Update of transactions approved by the GCE and the Committee:** In an effort

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Resolution Nc
For Attention

to capacitate the Board and the Committee, the Chairperson requested Management to consider engaging independent advisor/expert who will advise the Board on the reasonableness of the submissions and matters being tabled to the Committee, as and when required

- 8/8/1 A Scope of Works will be submitted to the Committee Chairperson prior to the next meeting for consideration.
- 8/9 **ICT Services Sourcing Strategy (T-Systems):** The Committee agreed that details of the SLA negotiations, terms and conditions, penalties together with mitigation measures for the 6 months contract extension must be tabled at the Board Risk Committee meeting in February 2014
- 8/9/1 The matter is in-progress.
- 8/10 **Port of Durban Island View Strategy:** The matter was deferred to the next meeting
- 8/10/1 The matter was deferred to the next meeting.
- 8/11 **TM1 increase in Delegated Contract Value:** Management stated that the requested increase was inclusive of all the factors, which included days lost as a result of the inclement weather. Management will submit the list of shared risks between the Contractor and the Company to the Committee for information
- 8/11/1 The matter has been finalised. Progress on the project was included on the NMPP Q3 Report.
- 8/12 **TM1 increase in DVC:** Management undertook to provide detailed information on the risks carried by the Contractor when there is weather or labour unrest related delays
- 8/12/1 The matter has been finalised. Progress on the project was included on the NMPP Q3 Report.
- 8/13 **TM1 increase in DVC:** Management stated that there are alternative contracts that are allowed in the construction industry, e.g. *International Federation of Consulting Engineers Contract ("FIDIC")* suites of contracts which were assessed sometime back and will be tabled at the next meeting for information purposes
- 8/13/1 The matter has been finalised. There are different contracts for different commodities.
- 8/14 **7-Year Procurement Pipeline:** The document will be loaded in the Reading Room of the Board Portal for the Committee for cross reference purposes
- 8/14/1 The matter has been finalised.
- 8/15 **7-Year Procurement Pipeline: RESOLVED** that the Committee recommended that the Board approves the Transnet 7-Year Capex and Opex Procurement Breakdown, Procurement Pipeline and Supplier Development Opportunity Identification and the Board submit it to the Shareholder Minister for information purposes
- 8/15/1 The matter has been finalised.
- 8/16 **The B-BBEE Amendment Bill and new B-BBEE Codes:** Management will enhance the quarterly B-BBEE report by adding a column to showcase the Company's performance in light of the revised B-BBEE Codes
- 8/16/1 The matter has been finalised
- 8/17 **The B-BBEE Amendment Bill and new B-BBEE Codes:** The Chairperson advised Management to engage the Director-General of DPE on the exemption from the new B-BBEE Codes on the basis of the Company being an "Enabler"

Messrs Molefe
SinghMr Molefe/
Ms Matooane

Mr Molefe

Mr Singh

CONFIDENTIAL

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Resolution N
For Attention
Mr Pita

8/17/1 Management indicated that the matter will be discussed with the DPE Director-General and the matter will be discussed on the return of the Director-General from Leave. A DPE team has been appointed to meet with Management.

9 **RESOLUTIONS TRACKER**

9.1 The Committee noted the Resolutions Tracker.

10 **BOARD ACQUISITIONS AND DISPOSALS COMMITTEE MANDATE**

10.1 The Committee noted the Board Acquisitions and Disposals Committee Mandate as contained in the pack.

11 **CLOSE**

There being no further business to conduct; the Chairperson declared the meeting closed at 16:00.


CHAIRPERSON

DATE: 26-02-2014


DEPUTY GROUP COMPANY SECRETARY

DATE: 26-02-2014

ANNEXURE FC 14





MEMORANDUM

TO: Transnet Board Acquisitions and Disposals Committee (BADC)

FROM: Mr Brian Molefe, Group Chief Executive, Transnet SOC

DATE: 21 January 2014

SUBJECT: MITIGATION OF MDS VOLUMES AT RISK THROUGH THE INVESTMENT IN AND PROCUREMENT OF 100 DUAL VOLTAGE ELECTRIC LOCOMOTIVES AND 60 CLASS 43 DIESEL LOCOMOTIVES.

PURPOSE

1. The purpose of this submission is to request the Transnet Board Acquisitions and Disposals Committee to recommend to the Transnet Board of Directors the following:
 - a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
 - b) To approve the investment in and procurement of 100 electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs):
 - c) To approve the confinement and award of the procurement for the 100 electric locomotives.
 - d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs):
 - e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives:
 - f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, including the award and process approval.

EXECUTIVE SUMMARY

2. The TFR locomotive fleet plan was first approved by the Transnet Board in April 2011 and updated with the 1064 GFB locomotive submission. The proposed locomotive acquisitions are in line with the fleet plan and have been budgeted for in the *7 Year Market Demand Strategy (MDS) 2013/14 - 2019/20*. The delay in the 1064 fleet acquisition has put General Freight Business (GFB) MDS volumes at risk.
3. This risk will be mitigated by the urgent acquisition of these locomotives.
 - a) The heavy haul 100 Electric locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program. The 100 locomotives form part of the already approved Fleet Plan
 - b) The 60 Class 43 diesel locomotives also fill the gap pending delivery from the 1064 program. These 60 locomotives do not form part of the approved Fleet Plan and this submission requests an amendment to the Fleet Plan to include these 60 locomotives
4. The Class 43 diesel locomotives recently delivered are modern capable locomotives. They have proven themselves in service and will improve service quality through improved reliability and reduced maintenance costs.

5. This submission proposes an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 electric locomotives to CSR (China South Rail) and extending the current Class 43 Contract with GESAT (General Electric South Africa Technologies) by 80 locomotives. The accelerated acquisition will mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15. The volumes mitigated increase from 6.2 mt (14/15) to 15.1 mt (16/17) and the cumulative income protected is R9 197 m (13/14 - 16/17).
6. The confinement to CSR and extension of the GE contract is motivated on the basis of urgency.
7. This accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisition remains unaffected. The acquisitions are funded from the current MDS. The delay in the 1064 will extend its funding to beyond the 7 year period.
8. The 60 Class 43 locomotives are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.
9. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances.
10. The proposed transactions do not increase the risk related to the 1064 tender process.
11. Socio-economic benefits will be realised in line with existing commitments and expectations.
12. The context and arguments are presented as follows:
 - a) History and Status of the TFR Fleet Plan
 - b) Status of the 1064 Procurement
 - c) Impact of the 1064 delay
 - d) MDS Risk Mitigation
 - e) Project Benefits
 - f) Procurement Strategy
 - g) Financial and budget Implications

BACKGROUND

13. The history and status of the TFR Fleet Plan and 1064 Procurement are presented to show that a genuine unforeseeable urgency has arisen and that the urgency is not attributable to a lack of proper planning. (Item 68 "Extract from Procurement Procedures Manual" refers)

History and Status of the TFR Fleet Plan

14. The TFR Locomotive Fleet and Modernisation Plan was presented to the new Board in April 2011 and predicated 776 GF locomotives by 2015/16 for GF volumes of 155.8 mt. The plan was modified in August 2011 when a further 426 locomotives were requested as the volumes increased to 176 mt by 2018/19. To mitigate the immediate shortage and facilitate the volume ramp up, 138 locomotives (95 electrics and 43 diesels) were approved by the Board in August 2011. Minor adjustments were made to the locomotive fleet plan for GFB with the presentation of the business case of the 1064 locomotives in April 2013.
15. The history and status of the TFR Fleet Plan is summarised in the table below:

Loco Fleet History and Plan	Tons	Comment and Update
Coal Fleet (26 ton axle)		
112 (100)	97.5	<ul style="list-style-type: none"> • Probable downward volume revision. Contracts currently being signed for 10 years for 80 mt as coal reserves, sources and Eskom demand are evaluated. • 112 targeted for expansion to 97.5 mt • Current fleet of 10E, 7E and 11E require near term replacement. • 100 (off the 112) switched to fleet replacement pending finality of and commitment to long term coal export expansion and requested per this submission • Feasibility studies investigating expansion of Coal Line to Waterberg as 26ton per axle heavy haul line. This is not currently included in the Locomotive Fleet plan.
GFB (22 ton axle)		
50 EMD		<ul style="list-style-type: none"> • 50 "like new" EMD diesels were delivered between December 2009 and March 2010 on open tender.
100 GE (Class 43)		<ul style="list-style-type: none"> • In 2008 these locomotives were identified as a "quick fix" with 81 to sustain the aging fleet and 19 for volume expansion. • GE won the tender, which was confined to three companies, and the locomotives were delivered between May 2011 and January 2013.
776	155 mt	<ul style="list-style-type: none"> • In April 2011 the Fleet Plan was presented to the "new" Transnet Board for 776 GFB locomotives for 155.8 mt.
95 CSR and 43 GE		<ul style="list-style-type: none"> • In June 2011 the Board approved 138 locomotives (95 electric and 43 diesels). The electrics were for open tender. A new confined contract was entered into with GE for the 43 diesels. • The 95 and 43 locomotives were determined and limited by the uncommitted funds in the then Five year Capital program • The diesels were delivered between January 2013 and June 2013. • The 95 CSR are planned for delivery March 2014 to March 2015.
1064	170 mt	<ul style="list-style-type: none"> • August 2011 the locomotive requirements for 176 mt were presented being 1202 locomotives (776+446). • With the 138 already approved the balance of the GFB fleet plan was 1064 locomotives. (1202 -138) • In March 2012 the 1064 approval process commenced in tabling the business case at Transnet Freight Rail Investment Committee. • The 1064 procurement is expanded in the body of the document below.
60		<ul style="list-style-type: none"> • 60 Class 43 requested to fill the gap in the first year of the 1064 resulting from the delay in procurement.

Loco Fleet History and Plan	Tons	Comment and Update
Ore Export Line (30 ton axle)		
44 <u>32</u> 76	44 mt 60 mt	<ul style="list-style-type: none"> • 44 15E bought open tender (Toshiba / Mitsui) to replace / supplement existing 9E locomotives and Class 34 GE Diesels with an option for a further 18 locomotives. • The option to extend by 18 locomotives was not exercised. • A new confined contract was entered into with Mitsui for a total of 32 locomotives to take the Ore Export Line to 60 mt. This confinement was motivated on standardisation of the fleet. • ~ 110 Class 34 GE diesels returned to General Freight and replaced with 30 Class 43 GE. • Potential General Freight traffic may materialise from 2013/14 on the Ore Export line and 4 9E locomotives may be retained for this traffic.
23 15E and 3 Diesels	80 mt	<ul style="list-style-type: none"> • The volumes are not likely to materialise in the 7 year MDS program. The FEL feasibility study is on hold and there is currently no commitment to the increased volumes. • The locomotives are also put on hold. • The 15E production line has shut down. As and when required, the procurement options will be evaluated against standardisation, cost and interoperability. • Diesels, if required, will be provided from the GFB fleet

16. The essential points relating to this proposal are:

a) The 100 Electric locomotives are for the coal line and were always part of the TFR locomotive fleet plan. See Para 35 and following. They release locomotives that can be used on GFB for the year that the 1064 program is delayed.

b) The 60 Class 43 diesel locomotives are not part of the 1064 locomotive program.

i. They are in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With the year delay in the 1064 procurement, the 60 locomotives fill the gap of the first year. Post the 1064 procurement, the sustaining fleet requirements based on a 30 year life are approximately 80 locomotives per annum and the last year of the 1064 procurement moves into the sustaining phase.

17. The programmatic element of the 1064 procurement enables locomotive quantities per annum to be adjusted to circumstances and this flexibility has been built into the tender and will be carried forward in the ultimate contracts.

18. The rationale for the 100 Electric and 60 Class 43 Diesel not being part of the 1064 locomotive process are covered under the Procurement Strategy Para 58.a) and following.

19. The future acquisitions for the expansion of the Coal Export line to 97.5 mt and the Ore Export line to 80 mt will depend on market conditions and development of the full supply chain across all stakeholders.

History and Status of the 1064 Procurement

20. TFR's Corporate Plan sets out the *7 Year Market Demand Strategy (MDS) 2013/14- 2019/20* to virtually double General Freight volumes to 170 mt by 2019/20. This requires an integrated and synchronised approach across locomotives, wagons, infrastructure and personnel and these aspects were covered in the 1064 business case submission.

21. The history of the 1064 procurement is depicted in the exhibit below.

		2011/12			2012/13			2013/14			2014/15			2015/16			16/17	17/18	18/19	19/20	20/21	Total	
1064	May 1730	Jun 1730	Aug 1730	Oct 1730	Dec 1730	Feb 1730	Mar 1730	Apr 1730	May 1730	Jun 1730	Aug 1730	Oct 1730	Dec 1730	Feb 1730	Mar 1730	Apr 1730	May 1730	Jun 1730	Aug 1730	Oct 1730	Dec 1730		
Current GF Fleet Renout March 2012	1730			1748			1888			1890			1854			1832			1778	1586	1550		
Most likely	Considering current state a two year delay is probable						100			105			230			230			195	144		1064	
ES CSR							10			85						165			230	230	195	144	1064

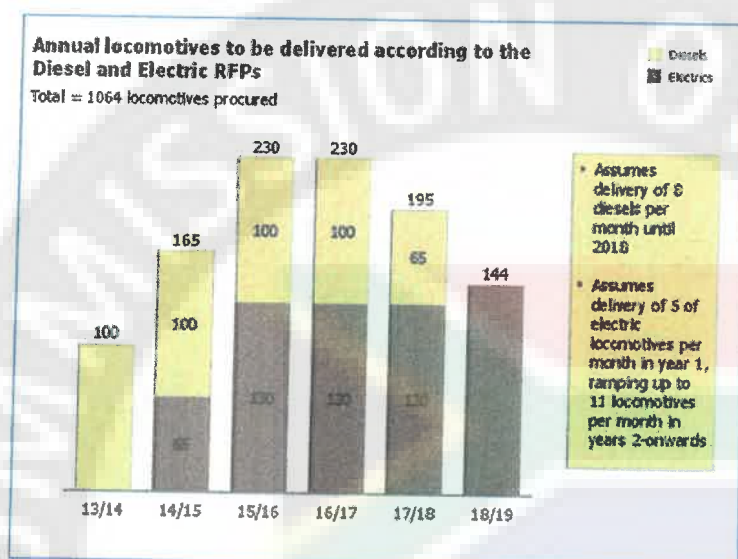
22. The approval process of the 1064 locomotives started in March 2011 when the business case was tabled at the Transnet Freight Rail Investment Forum.

23. Two approaches were used to shorten delivery times of the new locomotives as far as possible:

a) An aggressive approach was taken with the maximum locomotives delivered per month cognisant of local conditions and

b) Approval was obtained in July 2012 to go out on an RFP before the acquisition was finally approved or PFMA approval obtained.

24. Transnet adopted a cautious approach because of the value of the acquisition and appointed external consultants to evaluate the business case.
25. Board approval was obtained in April 2013 and PFMA approval in August 2013.
26. The tenders closed in April 2013 but negotiations with tenderers could not commence till PFMA approval had been obtained.
27. It is expected that adjudication will be finalised by February 2014 and contracts awarded by May 2014.
28. At the time of the tabling the 1064 business case, the 465 diesel and 599 electric delivery timelines were based on the RFP then in the market. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption.

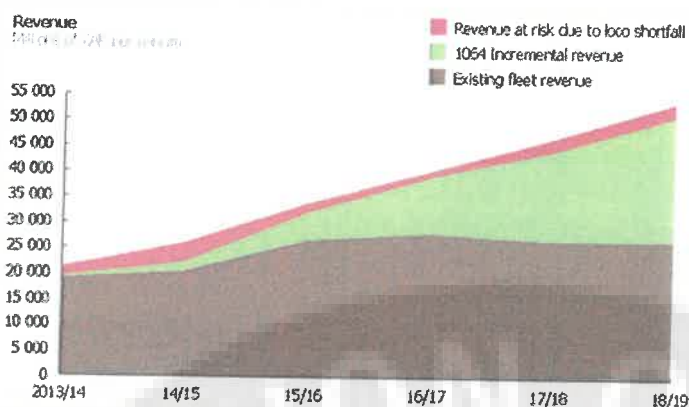


29. The 1064 program has slipped by at least a year against original expectations. The current RFP timelines are being reviewed by the Locomotive Steering Committee to ensure a compressed timetable to further mitigate volume risks to the MDC.

Impact of the 1064 Delay

30. Even with the 1064 business case being approved, there is a revenue shortfall which is exacerbated by the delay in locomotive delivery. This is depicted in the graph below extracted from the 1064 locomotive business case.

The 1064 locomotives are instrumental in capturing MDS target revenues, but a revenue shortfall will persist due to procurement timelines lagging target demand



31. The MDS shortfalls are tabled below for a one and two year delay.

a) One Year Delay:

Shortfall	MDS Shortfall Scenario - One Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
No Delay	33	138	314	533	763	946	1040
Year Delay	0	57	202	405	638	828	972
Impact							
Locomotives #	33	81	112	129	125	118	68
Tons Mt	1.6	5.2	9.8	13.7	14.0	13.3	7.6
Revenue Rm	363	1286	2610	3639	4073	4188	2584
Capital Rm	-1725	-1248	-1641	276	381	20	5249
Mtce. Rm	36	91	132	159	162	160	96
Fuel and Elec. Rm	67	183	331	440	469	471	290

Shortfall Total	2013/14
One Year Delay	- 16/17
Tons Mt	30
Revenue Rm	7 900
Mtce. Rm	417
Fuel and Elec. Rm	1021

b) Two Year delay:

Shortfall	MDS Shortfall Scenario - Two Year Delay						
Locomotives	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/120
No Delay	33	138	314	533	763	946	1040
Year Delay	0	0	57	177	302	415	465
Impact							
Locomotives #	33	138	257	331	358	309	212
Tons Mt	1.6	7.9	18.1	28.6	33.0	31.3	23.8
Revenue Rm	363	1955	4831	7593	9604	9899	8057
Capital Rm	-2183	-3910	-4014	-1807	1292	2003	6480
Mtce. Rm	36	155	302	409	465	418	301
Fuel and Elec. Rm	67	303	678	1004	1194	1153	903

Shortfall Total	2013/14
Two Year Delay	- 16/17
Tons Mt	56
Revenue Rm	14 743
Mtce. Rm	901
Fuel and Elec. Rm	2052

c) Notes to tables:

- i. The locomotives per year in the tables are mid-year numbers representing productive capacity and are lower than the total "delivered" during the course of the year.

- ii. The shortfall is totalled to 2016/17 on the assumption that other mitigating strategies will be put in place for the subsequent years.

MOTIVATION

MDS Risk Mitigation

32. The program and motivation below partially addresses the above MDS shortfall in the early years protecting tons and income per the table below.

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Avg. Rand / Ton	225.4	244.7	255.4	264.0	
100 19E - Tons Protected	2.4	2.4	4.4	7.2	16.44 Tons
Income Protected Rm	R 541	R 587	R 1 134	R 1 901	R 4 163
60 Diesels Tons Protected		3.8	7.9	7.9	19.6 Tons
Income Protected Rm		R 930	R 2 018	R 2 086	R 5 033
Total Tons	2.4	6.2	12.3	15.1	36.04 Tons
Income Protected Rm	R 541	R 1 517	R 3 152	R 3 987	R 9 197

33. Note that this submission is not a full risk mitigation. Further the benefit in 2013/14 is from Project Shongololo which are the new operating procedures introduced on the Coal Export Line.
34. The prime motivators for this submission are to:
- Protect General Freight volumes through delivering diesel and electric locomotives earlier than is possible through the 1064 program.
 - Ensure delivery earlier than the 1064 program by:
 - Confining the procurement of the electric locomotives
 - Extending the current diesel locomotive contract.

MDS Shortfall – 100 Dual Voltage Electric Locomotives:

35. The 100 Electric locomotives will be deployed on the Coal Export Line which will enable the release of 125 locomotives to the General Freight network protecting approximately 16.4 million tons (cumulative 13/14-16/17) of General Freight in the 7 Year MDS volume targets and thus allowing growth in the GFB market which would not have been possible because of the 1064 locomotive procurement delay.
36. The locomotive fleet plan presented to the Transnet Board in April 2011 proposed 112 new locomotives to meet an unconstrained coal export demand of 97 mt by 2015/16 with a proposed fleet of 308 electric locomotives. The "Capital investment for Export Coal 81 mt" predicated replacing the aged fleet with modern electric locomotives. The updated locomotive fleet plan of April 2013 accompanying the 1064 General Freight locomotive business case also predicated 112 new locomotives for the Coal Business.
37. Subsequent to the Fleet Plan, the operational model was revised to take full advantage of the dual voltage capability of the locomotive. The changeover to the new operational model commenced in July 2013 and will build up as drivers are trained on Radio Distributed Power operations on the current fleet and new the locomotives become available. This changes the future mix of the Coal Fleet. The new operational model is bringing about greater efficiencies and creating capacity and the order will be based on this technology.

38. The 112 locomotives were for expansion and replacement. Due to the volume shortfall in MDS it was decided to accelerate the acquisition of 100 electrics to enable the cascade of 125 locomotives to GFB and mitigate the MDS volume risk.
39. Cascading locomotives to General Freight will assist in mitigating the delay currently experienced in the 1064 program. In all cases the cascading will facilitate growth through to 2017/18 when the 1064 delivery begins to have significant impact. The class 7E and Class 10E series of the current coal fleet are facing imminent run outs, increasing maintenance costs and decreasing reliability and the cascade to General Freight is an interim measure.
40. The 100 Electric locomotives will sustain the Coal Line electric fleet for 81 million tons per annum capacity and standardize the coal fleet on Electric type locomotives with significant operational and cost advantages.
- a) To achieve this operational efficiency requires 200 wagon trains to bypass Ermelo Yard and couple parallel to the main line eliminating shunting and standing time in the yard.
41. The cumulative cascade program for the Class 10E and Class 7E locomotives depends on the acquisition of the 100 Electric locomotives which we envisage can be cascaded to GFB, as an interim measure, as follows;
- a) 40 in 2013/14
b) 74 end 2015/16
c) 120 end 2016/17
42. The first locomotives are cascaded in 2013/14. There are no or minimal cascades in 2014/15 as the locomotives are being delivered and commissioned. The effectiveness of the cascade is felt in 2015/16 and beyond.
43. Using the rule of thumb for General Freight that 100 locomotives generate approximately 6 mt per annum, the 125 released locomotives will protect approximately 7.2 mt per annum of general freight.
44. The exact allocation to the areas below will be determined at the time of cascading according to operational priorities.
- a) **Manganese exports through Ngqura:** Manganese exports from the Northern Cape through Ngqura are expected to grow according to the *7 Year Business Plan* to 12 mt (and to 16 mt thereafter). The Class 7E series released from the Coal Line to General Freight traffic will supplement this service till the full complement of class 20E locomotives have been delivered where after the Class 7E series will be retired.
- b) **Thabazimbi – Pyramid South:** This is an AC electrified section served by Class 7E series locomotives and the predicted volume growth is:
- | Year | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--------|---------|---------|---------|---------|---------|---------|---------|
| M Tons | 8.868 | 10.347 | 15.135 | 17.056 | 18.446 | 22.897 | 22.912 |
- c) Cascading the Class 7E Series will facilitate volume growth through to 2015/16 as well as the potential life extending / technology changing modification on the cascaded Class 10E series.
- d) **Maputo Export:** This is a DC electrified section suitable for Class 18E locomotives only. The cascaded Class 10E will release Class 18E locomotives from other sections which will be transferred into this section. The tonnage increase is:

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	6.421	8.353	12.469	13.499	16.446	21.168	21.598

- e) **General Freight on the Coal Line:** This traffic uses DC traction or Diesel locomotives to Ermelo and then AC electrification to Richards Bay. Currently Class 7E3 locomotives are designated for this traffic south of Ermelo. Releasing Class 11E locomotives from the export coal operation will enable the additional traffic and also substitute for the current Class 7E3 which will be cascaded.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
M Tons	10.702	11.901	13.404	15.036	15.733	16.032	16.470

45. The TFR Business Plan volume projections for the Coal Export Line are:

	Actual	Actual	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Export Coal Mt	67.7	69.21	77.00	81.00	81.00	84.00	95.00	97.50	97.50

46. The 100 Electric locomotive business case articulates the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export Line.
47. The market analysis and infrastructure investment for "Capital investment for Export Coal 81 mt" was recommended by Transnet Board on 16 February 2011 and approved by the Shareholder (Minister of Public Enterprises) on 20 June 2012.
48. Other aspects more fully covered in the 100 Electric Locomotive submission are:
- a) Reliability and Operational efficiency based on past experience of electric locomotives of similar design
 - b) Savings on operational expenditure and capitalised maintenance
 - c) Energy Savings

MDS Shortfall – 60 Class 43 Diesel Locomotives

49. TFR is in the process of acquiring 143 class 43 Diesel locomotives from GESAT which have been delivered over the past two years which are have proven to be a capable locomotive. Given the MDS volume shortfall, it is proposed that 60 class 43 locomotives be acquired to further mitigate the volume risk as those in the 1064 program are now likely to come on stream in 2015.
50. The efficiency utilization of the locomotives will be comparable to that currently achieved on the Phalaborwa – Richards Bay flow of 7 262 GTK per locomotive month. This flow powered by new class 43 Diesels already exceeds the national fleet efficiency targeted for 2018/19. This represents a 24% increase on the targeted 2013/14 efficiency.
51. The 60 locomotives have a potential mitigation of 3.8 – 7.9 mt at an average 8 149 GTK's per loco per month exceeding the current Phalaborwa – Richards Bay flow. The potential income protection is R5 033 m (cumulative 2014/15 - 2015/16). The exact allocation of the 60 locomotives will be confirmed at the time of deployment over the following flows:
- a) Botswana Coal to Bulk Connexion and Richards Bay.

- i. Potential 1.8mt – 3.8mt

- ii. Diesels required: 35 inclusive of technical allowance.
- iii. Potential GTK's per loco per month: 5 957
- b) Elitheni Coal from Sterkstroom to East London
 - i. Potential 1mt to 2.5mt
 - ii. Diesels required: 15 inclusive of technical allowance
 - iii. Potential GTK's per loco per month: 12 784
- c) Manganese from Postmasburg to Bloemfontein / Bloemcon
 - i. Potential 1 - 1.6mt mostly from new entrant miners.
 - ii. Diesels required: 10 inclusive of technical allowance.
 - iii. Potential GTK's per loco per month : 7 821

PROJECT BENEFITS

- 52. Protection of GFB MDS income and targets amounting to R4 163 m for the 100 Electric locomotives and R5 033 m for the 60 Class 43 Diesels over the period 2013/14-2016/17 .
- 53. Coal Export volumes and income are protected though improved reliability.
- 54. Sustainability objectives as per the Transnet Sustainability framework are met threefold:
 - a) Sustainability from an **economic perspective** is met by offering a long term cost effective, low cost rail solution that addresses the needs of industry to remain globally competitive and allows emerging miners to enter the coal export market.
 - b) Sustainability from a **social perspective** is met through the optimisation of manufacturing facilities, job creation and proactive stakeholder engagement.
 - c) Sustainability from an **environmental perspective** in energy savings through (i) the improved efficiency of the new locomotives and (ii) the overall energy saving through the regenerative capability of the locomotives.
- 55. The programme will support the shift from road to rail as the cascaded locomotives take up the shortfall in the General Freight market.
- 56. Benefits specific to the 100 Electric locomotives based on past experience include:
 - a) Energy savings will be achieved with an 18% improvement in KVA requirements over the old technology Class 7E and Class 10E locomotives.
 - b) The regenerative capability of the new technology of modern locomotives introduces further energy savings of between 22% and 26%.
 - c) Quantifiable savings in maintenance of new locomotives.
 - d) Not quantified but direct and indirect savings with uninterrupted operations due to fewer failures.
- 57. Benefits specific to the 60 Class 34 Diesels include:
 - a) Fuels savings of 8% over the older diesel fleet.
 - b) Significantly reduced failures compared to the current diesel fleet improving availability and reliability.
 - c) Standardisation of maintenance regimes with current Class 43 fleet.
 - d) Virtual elimination of significant damage to rail infrastructure (skid-marks) which are prevented by the modern traction control system.



- e) The characteristics of the locomotive more closely match that of the electric fleet enabling optimum use of traction capability when worked in multiples with electric locomotives using RDP.

PROCUREMENT STRATEGY

Rationale for not being part of the 1064 process

58. The procurement process was carefully considered and was not taken into or part of the 1064 locomotive process. Aspects considered were:

- a) **Type:** The 100 electrics are 26 ton per axle locomotives for heavy haul use to be deployed on the coal line. The 599 electric locomotives in the 1064 tender are 22 ton per axle locomotives for GFB use.
- b) **Delivery:** The 60 diesels are similar to the 465 of the 1064 but the motivation below for extension is one of urgency because of the overall delay in the 1064 program. Including the diesels in the 1064 does not address the delay or urgency.

Analysis and Implications of Procurement Options

59. The following options were considered and reasoned:

- a) Go out on tender
- b) Do Nothing
- c) Confine / Extend Contract
- d) Extend current 20E contract for 95 CSR Locomotives
- e) Leasing

60. **Go out on tender:** With this option the locomotives become available beyond the 1064 timeframe and hence this is not a viable option as it does not address the urgency. It is however the best option insofar as public perceptions, fairness and transparency are considered.

61. **Do Nothing:** This option puts the MDS volumes at risk that this proposal wishes to mitigate. The implications are:

Income Protected	2013/14	2014/15	2015/16	2016/17	Cumulative Total
Tons Lost	2.4	6.2	12.3	15.1	36.04 Tons
Income Lost	R 541	R 1 517	R 3 152	R 3 987	R 9 197 Rm

62. **Confine / Extend contract:** This addresses the urgency of the proposal but has potential negative public implications. For the urgency already outlined and the reasons below this is not part of the 1064 process and will not impact on that process.

- a) The diesel locomotives are known, running effectively, meet the technical requirements and prototyping and set up costs are not required
- b) Extension of the GE contract is the fastest most efficient way to procure the diesel locomotives.
- c) The CSR facilities are available for immediate production which will result in significant delivery acceleration based on the learnings of the 95 loco processes. CSR has capacity to produce 2000 locomotives per annum.

- d) CSR is a known current supplier who has excelled in the two most recent tenders for electric locomotives from a technical capability and capacity perspective, supplier development, commercial and transformational perspective.
- e) Confinement of the contract to CSR meets the grounds for confinement per the most recently BADC approved PPM.
- f) Both the extension and confinement are acceptable procurement mechanisms per the PPM in this instance.

63. **Extend current 20E contract for 95 CSR Locomotives:** The 20E currently on order is a 22 ton per axle GFB locomotive. Additionally, extension would not be an acceptable procurement mechanism per the PPM given the material amendment to contract which could be challenged.

64. **Leasing:** Aurizon in Australia have indicated that they have about 20 locomotives available for lease. However, the newest of these is 30 years old and the quantities are not likely significantly impact volumes. We will view the 20 locomotives and assess their suitability for our network. There is no viable external market for 1064mm dual voltage electric locomotives. South African circumstances are (historically) unique requiring bespoke electric designs. Even if leased the conditions would be that TFR take ownership after a period of time.

65. **Implications:** The 1064 tender is currently under adjudication. It is the largest procurement processes within Transnet and while it seeks (inter alia) to launch a South African locomotive industry, it will be closely scrutinised by the losing bidders seeking any loophole to press an advantage. The tender calls for programmatic procurement and it is possible to reduce the final quantities. The following implications were considered in adjusting the (diesel locomotive) quantities.

- a) The tenders have closed and asking respondents for revised submissions would delay the process further.
- b) The perceptions that may be generated by "backtracking" on and reducing a visibly stated need and objective to "favour" a supplier, the urgency argument notwithstanding.
- c) Proceeding with the proposed contract extension and announcing the reduction in diesel quantities at the time of award may be perceived as an underhanded manner of "favouring" a supplier.

Procurement Recommendation

66. For reasons of urgency, the confine / extend contract option is the recommended option.

67. This will procure the locomotives in the shortest possible time and, by so doing, best mitigates the potential shortfall in MDS volumes. The reasons of urgency have been set out as well as the complementary benefits of the recommended option.

Confinement of 100 Electric Locomotives

68. An extract from the latest approved Procurement Procedures Manual stipulating grounds for confinement which are relevant to this submission, reads:

"Confinements will only be considered under the following circumstances:

- a) where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of proper planning. However, where a genuine urgency has been created by the lack of proper planning, urgency can still be relied upon as a ground for Confinement. In such cases appropriate action must be taken against the individual(s) responsible for the bad planning.

- b) the Goods/Services are only obtainable from one/limited number of suppliers. For instance, patented/proprietary Goods or OEM spares and components. Operating divisions are however required to provide evidence that there are no new entrants to the market who could also be approached;
- c) for reasons of standardisation or compatibility with existing Goods and Services. A case must be made that deviation from existing standardized Goods or Services will cause major operational disruption. If not, confinements based on "standardisation" will not be considered; or
- d) when the Goods or Services being procured are highly specialized and largely identical to those previously executed by that supplier and it is not in the interest of the public or the organization to solicit other offers, as it would result in wasted money and/or time for Transnet. When this particular ground is intended to be used as a ground for Confinement, it is important to note that all pre-requisites must be satisfied: The Goods or Services must be highly specialised, almost identical to previous work done and approaching the market again would result in wasted money and time."

69. The project is motivated on the basis of Para (a) where a genuine unforeseeable urgency has arisen.

- a) Item 13 et al covering the "History and Status of the TFR Fleet Plan" and the "History and Status of the 1064 Procurement" demonstrates the reasonable and timeous steps taken to address to the Board the run out of the current fleet and the locomotive requirements required to address the volume ramp up of GFB.
- b) Item 11 et al further indicates that the delay was not attributable to a lack of proper planning as the GFB locomotive requirements have remained consistent throughout.
- c) Considering (a) and (b), no individual or group of individuals is responsible for bad planning.

70. Complementing the urgency is ground (d):

- a) Locomotives are highly specialised with limited suppliers worldwide.
- b) The locomotives would be largely identical with those already supplied and to be supplied and
- c) Transnet would incur wasted time and money in approaching the market (b) and (c) are relevant due to the fact that:
 - i. CSR has been adjudicated as the best bidder during the 95 electric loco process as well as joint on the 1064 process. Both these tenders include the Board approved procurement methodology of maximising supplier development whilst ensuring highest standards of quality and best possible commercial offering. Transnet has just spent a large amount of time, human capital and money in the recent tenders and going through another tender process would not be efficient given the urgency.
 - ii. Production of the current MARS contract has been completed and was based on previous procurement methodology where supplier development was not a key focus area and the Mitsui consortium did not fare well in the two most recent tenders issued by Transnet. Therefore continuation with Mitsui via confinement would pose unnecessary risk to the organisation. Furthermore, reputation risk exists, although subjective and places the company under



unnecessary risk if it were to follow a confinement approach with Mitsui. This reputation risk involves speculation in the media around Mitsui's local partners and their political affiliations. Transnet would never entertain awards based on political prowess of any business partners to an OEM but the risk does need to be taken into account from a reputational perspective.

71. TE is currently maintaining and repairing the Class 19E Electric Series which means that they are accustomed to maintenance regimes are more modern electric dual voltage locomotives. Limited additional training will be required and optimum utilisation of the current maintenance facilities will be met. Simplified maintenance practises will result in shorter Mean Time to Repair. Common practices will be addressed through maintenance regimes of the 95 loco series, 599 elements that CSR is shortlisted for and this fleet.

72. From a social-economic perspective the following jobs will be retained in assembly facilities:

- a) Approximately 186 jobs will be retained at the TE assembly facility and further jobs will be retained in downstream enterprises
- b) Approximately 400 jobs are estimated to be created over the period for electric assembly and further jobs will be retained in downstream enterprises
- c) Based on SD offerings made in recent tenders Transnet believes it can achieve maximum SD possible with at least 65% for diesels and 70% for electrics.

73. Considering the volumes at risk and the urgent requirement for the coal line locomotives to cascade the current fleet to General Freight, it is proposed that the procurement be confined to CSR.

Contract Extension with GESAT for 60 Class 43 Diesels

74. The arguments for an extension to the GESAT contract are similar to those for confinement and are motivated on:

- a) the basis of urgency (a) as outlined above
- b) and complemented by standardisation (c) and goods largely identical to those previously executed (d).

75. The project is motivated on the basis where a genuine unforeseeable urgency has arisen. The arguments above are also applicable to the 60 Class 43 Diesels.

76. The latest approved Procurement Procedures Manual, dated 01 October 2013, par 22.4.2, allows for a contract extension. In this instance the request is for a material contract amendment to a previously confined event. The reasoning for the original confinement of the additional 43 loco's is still applicable given that there is a genuine unforeseeable urgency which has arisen due to the delay in the 1064 tenders and such urgency is not be attributable to a lack of proper planning.

77. Complementing the urgency is that the goods are largely identical to those previously executed by that supplier and standardisation is a benefit for the specialized locomotives.

78. Addressing the urgency:

- a) In December 2009, Transnet concluded a contract with General Electric South Africa Technologies (GESAT) PTY Ltd for the Supply of 100 Diesel Locomotives through a limited tender process confined to three potential suppliers. In 2011/ through a

confinement process, TFR concluded a contract with GESAT for an additional 43 Class 43 diesel locomotives. The completion date of the 43 Locomotives was end June 2013 in line with the Transnet planned schedule. The last few locomotives to roll out of assembly will be tested by 30 September 2013, where after they may be accepted.

- b) As the production line is currently operational and design is finalised, delivery lead times will be reduced by approximately 12 months and Transnet will save by not requiring set up costs of facilities and production runs.
 - c) GESAT and TE have the ability to roll out between 8 to 10 locomotives per month.
 - d) No prototyping or type testing is required.
79. Complementing the urgency (a) is the standardisation (c) and goods largely identical to those previously executed (d). Inter alia:
- a) Locomotives are highly specialised with limited suppliers worldwide.
 - b) The locomotives would be identical with the 143 Class 43 Diesels already supplied or about to be commissioned.
 - c) Transnet would incur wasted time and money in approaching the market as:
 - i. The specialised tender specifications take time to prepare; prospective tenderers need time to respond and there is the time to adjudicate. This process takes at least 12 months by which time the urgency has passed and the 1064 deliveries will start to kick in.
 - ii. Furthermore a new supplier would necessitate a new design, design review and prototyping and type testing. This is a further 12 months for diesels before production commences.
 - d) Standardisation of locomotives has two elements. (i) Operational standardisation and (ii) Maintenance standardisation.
 - i. Operational standardisation requires locomotives of the same class to operate as a consist (i.e. two or more locomotives coupled together operating as a single unit). This is not negotiable but is implemented through de facto industry standards.
After many years these standards have now changed and TFR is evaluating the impact of these changes.
 - ii. Maintenance standardisation addresses:
 - Reduced spares holdings and simplified and standardised inventory.
 - Standardised tools and diagnostic instruments serving a common fleet
 - Unified training and for maintenance staff.
 - Simplified maintenance practises resulting in shorter Mean Time to Repair.
 - iii. TE is currently maintaining and repairing the Class 43 Series which means that no additional training will be required and optimum utilisation of the current maintenance facilities.
80. In light of the foregoing concerning standardisation, specialisation and similar locomotives already supplied and further considering that:
- a) the Class 43 diesel is a modern locomotive that is performing well and has proven to be both efficient and reliable and



- b) the proposed 60 locomotives will identical to the current design and no prototyping or type testing is required conservatively saving 15 months or more and
- c) the limited quantities required:

It is submitted that it is not in the best interest of Transnet to solicit other offers for the 60 Class 43 diesel locomotives.

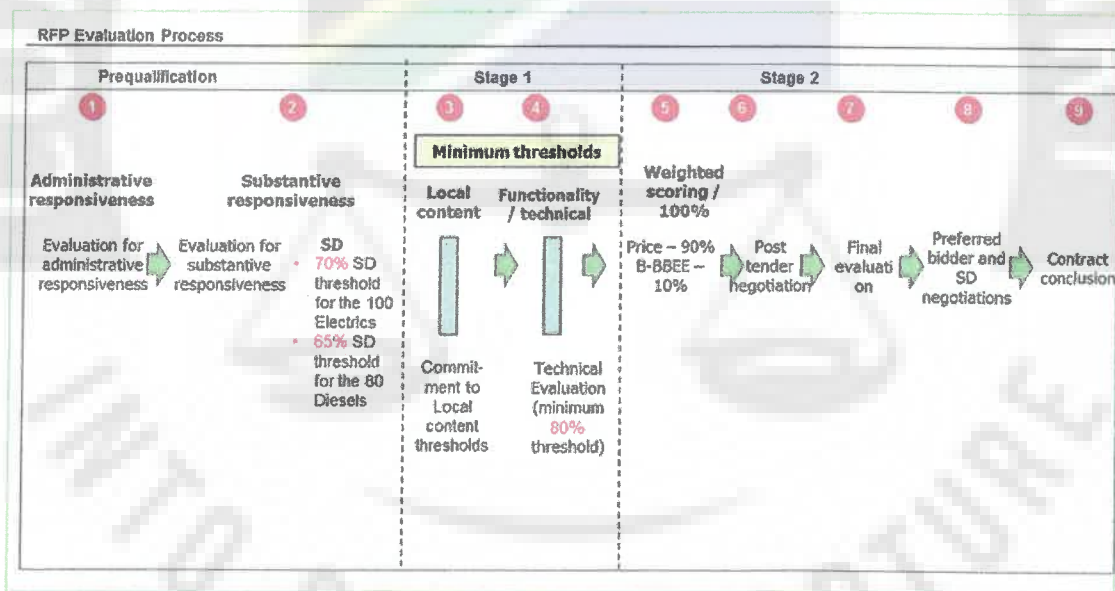
- 81. In both transactions, Transnet Engineering (TE) was appointed as GESAT's subcontractor for the local assembly of the locomotives and the contractual obligations have been met.
- 82. The time and cost to localise production to comply with local content and SD requirements has to be amortised over the anticipated production run. The smaller the run, the more expensive the overhead.
- 83. Given that a contract is already in place and that the additional 60 loco requirement will be largely on the same terms and conditions as the 43 loco confinement, this warrants extension.

Contracting strategy

- 84. Extend the current contract with General Electric South African Technologies (GESAT) for 60 Class 43 Diesel Locomotives.
- 85. Confine and award to China South Rail (CSR) for 100 Electric locomotives.
- 86. The reasons for the different confinement and extension strategies have been highlighted in the sections above.

Evaluation Methodology

- 87. The Request for Proposals (RFP's) for the confinement to Mars and extension to GESAT respectively will be issued and their respective proposals will be assessed as described below.



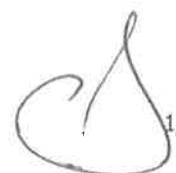
- 88. The Evaluation Methodology for an open tender comprises the following steps:

- 1) **Administrative responsiveness** – bidders will need to pass the administrative responsiveness to enable them to be evaluated further. This includes evaluating all returnable documents were submitted and the bid documents were duly signed by the bidders

- 2) **Substantive responsiveness** – bidders must ensure that all pre-qualification criteria, the pricing schedule is completed, their bid materially complies with the scope/specification and that all material terms and conditions in the bid documents have been met. SD pre-qualification criteria will be set at 65% for diesels and 70% for electrics based on recent learnings from the 1064 process.
 - 3) **Local Content** – bidders must comply to the minimum local content thresholds for Electric and Diesel locomotives as stipulated in the PPPFA.
 - 4) **Technical evaluation** – bidders will need to pass the minimum technical thresholds of 80% for both Electric and Diesel locomotives to proceed to the final phase (stage 2) of evaluations.
 - 5) A **weighted scoring** approach for Price (90%) and B-BBEE – scorecard (10%) will be used to determine final award.
 - 6) **Post tender negotiations** – post tender negotiation requesting preferred bidders to provide their Best and Final Offers.
 - 7) **Final evaluation** – preferred bidders to undergo final evaluation based on the 90/10 as stipulated by the PPM.
 - 8) **Preferred bidder negotiations** – selection of the preferred bidder and negotiation of various aspects including final SD commitments and the B-BBEE improvement plan (FRC Future).
 - 9) **Conclude contract** – the parties sign a contract and addendums to formalize the agreement.
89. The above process is modified for the proposed confinement and extension in that:
- a) Administrative response (1) is simplified to essential documentation such as tax clearance certificate, BEE certificate etc.
 - b) Substantive response (2) will be required on to ensure that all material terms and conditions in the bid documents have been met. SD pre-qualification must be met.
 - c) Local content threshold must be met.
 - d) Technical evaluation (5) is simplified to ensure that all modifications / improvements made over the life of the locomotives (Class 43 and Electric's) for incorporation.
 - e) Weighted Scoring Approach (6) and
 - f) Final Evaluation (8) is not required due to confinement and extension to one party although evaluation against expected SD, BEE improvement and price ranges will be conducted to ensure the deals meet Transnet's expectations.,

Local Content, Designated Components and Supplier Development (SD)

90. Meeting Local Content (3) is a prerequisite to proceeding to SD threshold (4) evaluation.
91. The targets per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1)) are compulsory and are elaborated in following table:

 1/22/2014

Local Content - Section 3 (3.1)	
Category	Weighting
Local manufacturing: Threshold: 60% for Electric and 55% for Diesels)	100% of PPPFA
Total	100%

92. In addition, the progressive Local Content for Designated Components (Section 3 (3.2)) will also be applicable to both Electric and Diesel locomotives as per the table below though they may not materialize as the contracts will be fulfilled before three years and they are not programmatic.

Designated Component / Activity Heading Only - Section 3 (3.2)	% Local Content 3-5 Years	% Local Content 6 Years and above.
Assembly of Locomotives and EMU	100%	100%
Car Body	100%	100%
Bogie (including wheels)	100%	100%
Coupling Equipment	100%	100%
Suspension	100%	100%
Heat, Ventilation and Air Conditioning	60%	70%
Braking System	70%	80%
Alternators	90%	100%
Traction Motors	65%	80%
Electric Systems	80%	90%

1. The Supplier Development categories are set out in the table below. The pre-qualification targets are considered realistic and achievable without posing a risk to the project.

Supplier Development (SD)
Category
Investment in plant – bidders monetary commitment to investment in plant and equipment
Downstream procurement – bidders commitment to supporting 2 nd , 3 rd tier suppliers, etc.
Skills development – supplier's commitment to skills development (number of people and monetary)
Job creation / preservation – supplier's commitment to number of jobs maintained/created
Small business promotion – supplier's commitment to usage of small businesses (monetary)
ED/SD – bidders commitment to SD initiatives and ED development

Award Conditions – 100 Electric locomotives

2. Approval to award the business to CSR is requested subject to SD compliance with the following:

- a) Local content meeting or exceeding 60% by value
- b) Compliance with **new** SD commitments with a minimum of 70% as measured in the SD Value Summary which forms part of the RFP
- c) Transnet will also request a price range of between R30.5m and R32m for the purposes of negotiation with the objective of coming in within the R34.34m per loco which will be used as a guide as is dependent on forex fluctuation.

Award Conditions – 60 Class 43 Diesels

3. Approval to award the business to GESAT is requested subject to SD compliance with the following:
 - a) Local content meeting or exceeding 55% by value
 - b) Compliance with **new** SD commitments with a minimum of 65% as measured in the SD Value Summary which forms part of the RFP
 - c) Transnet will also request a price range of between R22.5m and R24m for the purposes of negotiation with the objective of coming in within the R26m per loco which will be used as a guide as is dependent on forex fluctuation.

FINANCIAL AND BUDGET IMPLICATIONS

1. The financial motivation and budget implications for the 100 Electrics and 60 Class 43 Diesels are discussed in detail in the respective submissions.

100 Electrics

2. The 100 Electric Locomotives are summarized below and are based on previous experience with the Class 19E contract:
 - a) A base price per locomotive price of R 34.34 m (2013/14 - Yen 385 m @ Rand/Yen 0.09823)
 - b) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 343	R 1 737	R 1 439				R352	R 3 871
Delivery		56	44					100
 - c) Adding the 100 class 19E sustaining locomotives to the original Coal 81 mt model changes the Net Present Value of the total Coal 81 Project from (NPV) R90.63m to (NPV) R98.49m over 10 years.
 - d) The present value (PV) of the Total Cost of Ownership using the 1064 locomotive model is R58.6m per locomotive and R5 863m for the 100 locomotives.
 - e) Approved infrastructure investments supporting the project totals R3 974 million.
 - f) The cost is estimated and therefore a final price can only be given upon negotiation.

60 Class 43 Diesels

3. The 60 Class 43 Diesels are summarized below:
4. The 60 Class 43 locomotives **are over and above** the 465 diesels of the approved 1064 locomotives.

- a) The delays in the 1064 will result in the delivery of the 1064 locomotives extending beyond the current 7 year MDS capital plan. The diesels in particular will not meet the originally planned delivery.
- b) The fleet plan and the 1064 locomotive business case stress sustaining the fleet beyond the seven year period in the order of 60 to 80 locomotives per year.
- c) The 60 Class 43 diesels will be funded from the 1064 locomotive budget for the first year.
- d) The 1064 locomotive budget will be adjusted commencing the 2014/15 7 year cycle for the delayed delivery of the 1064 beyond the current 2013/14 7 year cycle. This adjustment is in line with the stated intent of sustaining the fleet through a continuous replenishment of new locomotives.
- e) A price per locomotive price of R 26m @ Rand / USD (R9.59/USD) (R27.67 m @ R10.4/USD for 2014/15).
- f) Capital Investment Summary:

Year / Rm	13/14	14/15	15/16	16/17	17/18	18/19	Contingency	Total
Project Plan Payment	R 156	R 1 504					R166	R 1 826
Delivery		60						60

- g) The acquisition of the 60 Class 43 Diesel preserves an NPV of R1 871 m based on the 1064 Locomotive Model.
- h) The PV of the Total Cost of Ownership using the 1064 Locomotive model is R63.7m per locomotive and R3 822m for the 60 additional diesels over their 30 year life.
- i) The cost is estimated and therefore a final price can only be given upon negotiation

Financial Impact to Group

5. The proposed procurement has limited impact on Group finances and the critical ratios are maintained.
6. For no delay the ratios are:

Ratios: Transnet Group - As is	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.9	29.1	31.5	32.5	35.4	36.3
- EBITDA %	42.9	46.7	49.1	49.7	51.8	52.6
- Return on average total assets (%)	8.0	10.0	11.3	12.4	14.2	14.5
- Gearing (%)	46.6	47.7	47.7	47.0	45.2	41.6
- Net debt to EBITDA (Times)	3.04	2.70	2.53	2.40	2.17	1.94
- Asset turnover (Times)	0.30	0.33	0.34	0.37	0.38	0.38
- Cash interest cover (Times)	3.3	3.6	4.0	4.1	4.5	4.8

7. For a one (1) year delay the ratios are:

Ratios: Transnet Group One (1) Year Delay	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.5	29.6	29.0	31.3	32.0
- EBITDA %	42.7	46.2	47.6	47.1	48.7	49.5
- Return on average total assets (%)	7.9	9.7	10.4	10.6	11.8	12.0
- Gearing (%)	46.2	47.3	47.8	48.7	48.7	47.1
- Net debt to EBITDA (Times)	3.01	2.71	2.67	2.75	2.64	2.49
- Asset turnover (Times)	0.30	0.33	0.33	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.8	3.7	3.7	3.9

8. For a two (2) year delay the ratios are:

Ratios: Transnet Group Two (2) Year Delay	Budget	Projections				
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
- Operating margin %	24.8	28.3	29.3	29.1	31.6	32.6
- EBITDA %	42.7	45.9	47.2	47.1	48.9	50.0
- Return on average total assets (%)	7.9	9.6	10.3	10.7	12.0	12.3
- Gearing (%)	46.0	46.6	46.8	47.4	47.7	46.3
- Net debt to EBITDA (Times)	2.99	2.67	2.61	2.64	2.55	2.41
- Asset turnover (Times)	0.30	0.33	0.34	0.35	0.36	0.36
- Cash interest cover (Times)	3.3	3.6	3.9	3.8	3.9	4.0

SOCIO-ECONOMIC BENEFITS

9. The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2.
10. Meeting the MDS growth targets supports the National Development Program in the industrialisation of SA's mineral resources.
11. The program supports the sustainable development of a South African locomotive production industry.
12. Economic benefits include:
 - a) Using idle capacity available in South Africa
 - b) In terms of the National Treasury instruction note the local content for designated sector (rolling stock - locomotives) for electric locomotives is 60% and for diesel locomotives is 55%.
 - c) Ability to reinstate / retain local jobs as the skills pool already exists
 - d) Significant Indirect and direct South African jobs will be preserved which include approximately 186 direct jobs at the TE assembly facility with further jobs retained in downstream enterprises

PROJECT RISKS

13. Both projects face several risks that could affect their overall economic viability:
14. **Locomotive Delivery:** This could arise if (i) the confinement is not approved (ii) unforeseen circumstances on the part of supplier including not complying with CSDP conditions.
15. **Lower volumes:** MDS volumes may not materialise per plan negating the need to cascade locomotives and / or the class 43 diesels not being fully or optimally utilised.

16. The coal line locomotives are nonetheless still nearing their end of life and these will require replacement in the short term to sustain coal exports at 81 mt. Long term coal contracts are currently being negotiated for 81 mt and there are sufficient coal reserves to sustain this tempo. The model and NPV is further based on 95% of the coal export volumes materialising. There is no risk to this project if volumes do not ramp up to 97.4 mt.
17. Exchange Rate Fluctuations:
- a) For the 100 Electric confined to CSR, the Yen / Rand Rate is used as a forecast given that the Class 19E deal was used as a base. Localisation is already set at 60%, thus mitigating exchange fluctuation risks.
 - b) For the 60 Class 43 confined to GESAT the base price is taken R10/USD. The rate is forecast to strengthen in the short term which includes the duration of the contract before weakening.
18. Tariffs not being realised:
- a) For the coal line current FOB prices for RBCT coal are around US\$90 per ton, well below the peak of over US\$150 per ton. At R9.50/USD and a tariff of R126 per ton, transport accounts for ~13% of the FOB price. Pressure on tariffs will remain till there is a long term sustainable uptick in the FOB price.
 - b) For General Freight increases linked to inflation are not seen as a risk while increases above inflation will be subject to scrutiny and downward pressure.
19. Tariff exposure to commodity downturns:
- a) In the short term this could impact the viability of emerging miners for export coal. This will affect only 3 mt as the rest are based on long term contracts being negotiated. The model is also based on 95% of the volumes realising.
 - b) Locomotives have a 30 year life-cycle which transcends economic cycles. In the short to medium term the global economic recovery is seen as slow but sustained. The economic environment for General Freight locomotives was fully set out in the 1064 business case.
20. **Over Capitalisation of the Coal Line:** This is not seen as a risk as the locomotives sustain current volumes of 81 mt for which long term contracts are being negotiated. The reserves in the Mpumalanga basin are also acknowledged to be able to sustain this tempo for the long term. There is thus little risk of stranded assets. The locomotives being replaced are at the end or very close to the end of their economic life and would require replacement in the very short term even if they were not cascaded to General Freight.
21. Project interdependencies:
- a) Crucial to the new operations and achieving 81mt on the Coal Export Line with the additional 100 Electric locomotives requires constructing the Ermelo bypass line. This line enables two 100 wagons trains from the mines to be coupled together enabling the train to proceed as a single 200 wagon Radio Distributed Power (RDP) train without going into Ermelo Yard.
 - b) An interdependency for the 100 Electric locomotives is cascading locomotives to general freight. The 60 Class 43 Diesels do not have other project interdependencies
22. Project risks will be mitigated during implementation by a **dedicated cross-functional project team** to manage the contract.

RECOMMENDATION:

23. It is recommended that the Transnet Board Acquisitions and Disposals Committee recommends to the Transnet Board of Directors the following:

- a) Note the risk to TFR MDS volumes through insufficient traction power resulting from the delay in the procurement of the 1064 locomotives:
- b) To approve the investment in and procurement of 100 Electric locomotives required for the Coal Export Line in the amount of R3 871 m (excluding borrowing costs):
- c) To approve the confinement and award of the procurement for the 100 Electric locomotives.
- d) To approve the investment and change in the fleet plan to procure of 60 Class 43 diesel locomotives for General Freight in the amount of R1 826 m (excluding borrowing costs):
- e) To approve an extension of the current Class 43 diesel locomotives contract for 60 additional locomotives:
- f) The GCE be delegated the power to sign and conclude all relevant documents to give effect to the above resolutions, including the award and process approval.

RECOMMENDED BY:

Siyabonga Gama
Chief Executive
Transnet Freight Rail

Date:

RECOMMENDED BY:

Anoj Singh
Group Chief Financial Officer
Transnet SOC Ltd

Date:

RECOMMENDED BY:

Brian Molefe
Group Chief Executive
Transnet SOC Ltd

Date:

ANNEXURE FC 15



fcallard@telkomsa.net

From: Willem Kuys Transnet Freight Rail JHB
Sent: 18 February 2014 14:10
To: Graham Paverd Transnet Freight Rail JHB
Cc: Francis Callard Transnet Freight Rail JHB; Frikkie Harris Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB
Subject: ADDITIONAL 100 HEAVY HAUL COAL LINE LOCOMOTIVES: SPECIFICATION
Importance: High

Graham

As discussed, the additional 100 heavy haul coal line locomotives have been approved.

This requires specifications for tendering purposes. It was decided that the 20E specification be used for a BO-BO locomotive with the following adjustments/addendums:

1. Tractive effort be increased to a minimum of 310kN at 34kmh.
2. The adhesion be limited to a maximum of 30%
3. Axle loads be limited to a maximum of 26 ton per axle
4. These locomotives must be equipped with ECP/WDP compatible to the present systems used on the coal line.

In effect this will imply that the present 20E will be ballasted for increased tractive effort.

Further, the present 19E locomotives have an unique MU system protocol that is outdated. This implies 19E and these additional locomotives will not be able to MU in one consist. In a mixed consist it is proposed that the different locomotives be controlled via the WDP system. Is this practical?

The time line to for this revised specification is tight and required by tomorrow evening (19 February 2014). This is a tall order but I understand that it is possible from your side. If required the present 20E tests must be suspended to comply with the time requirement.

Regards

Willem Kuys

Project Director

Capital Program

Transnet Freight Rail

Cell: 083 277 0100

Phone: 011 583 0481

Logo<<http://jhbwspcdev101/sites/Logo/Logos/20yrsLogo%20-%20small.jpg>>

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ANNEXURE FC 16



TRANSNET



Mr Willem Kuys
Project Director
TFR: Capital Program
Inyanda 4
Table 1/42
PARKTOWN

Mr Graham Paverd
Chief Engineer
TFR: Technology Management
Room 820
138 Eloff Street
BRAAMFONTEIN

Tel: +27 11 773-2397
Graham.Paverd@transnet.net

Date: 19 February 2014

Mr Kuys,

REQUIREMENTS AND REVISED SPECIFICATION FOR AN ADDITIONAL 100 DUAL VOLTAGE LOCOMOTIVES

Attached please find the revised Class 20E(Series 1) specification BBG 1510, rev 1 as requested. (It was based on the original 20E specification.)

The following main requirements were reviewed with Mr Pragasen Pillay.

1. Locomotive Bo-Bo axle mass limited to a maximum of 26 tons per axle.
2. Continuous Tractive Effort of 311kN at 34km/h at wheel tread with adhesion of 30% maximum.
3. Braking Effort at 251kN at 50km/h to 5km/h, Blended Braking as per 20E locomotive.
4. Locomotives to be fitted ECPB/WDP interoperable with class 19E locomotives.
5. Locomotives to be fitted with F type coupler, spring loaded coupler carrier plate and NC390 draw gear.

The main requirements were discussed with CSR in the presence of Mr Thamsanqa Jiyane and Ms Lindiwe Mdletshe.

The revised locomotive specification was reviewed by the following staff:

- Dr Robert Fröhling
- Marthin Mulder
- Konrad van der Merwe
- Elvis Tshivhilinge
- Jeff Upfold
- Winfried Mörs

The following representatives from the Capital Projects office assisted with the review:

- Frikkie Harris
- Eugene Rossouw
- Chris Uys

The following additional requirements must be specified in the covering memorandum to CSR:

- The locomotives should also include all other changes and improvements made by CSR itself to ensure that the new locomotives include all changes up to and as included per the built locomotive E20010.

- The changes, refinements and modifications to the original proposal as agreed to with CSR during the 20E clarification process, 20E design reviews and the 20E issues list must be incorporated.

Kind regards,



GRAHAM PAVERD
CHIEF ENGINEER



ANNEXURE FC 17



fcallard@telkomsa.net

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 21 March 2014 11:17
To: Francis Callard Transnet Freight Rail JHB
Cc: Johan Bouwer Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB; Mohammed Moola Transnet Freight Rail JHB
Subject: CASH FLOWS 1064
Attachments: Copy of CASHFLOWS_FINAL_17MARCH14 (2).xlsx

Hi Francis, herewith the cash flows.

Please confirm NPV and IRR.

Best Regards

Yousuf Laher CA (SA)
Transnet Freight Rail



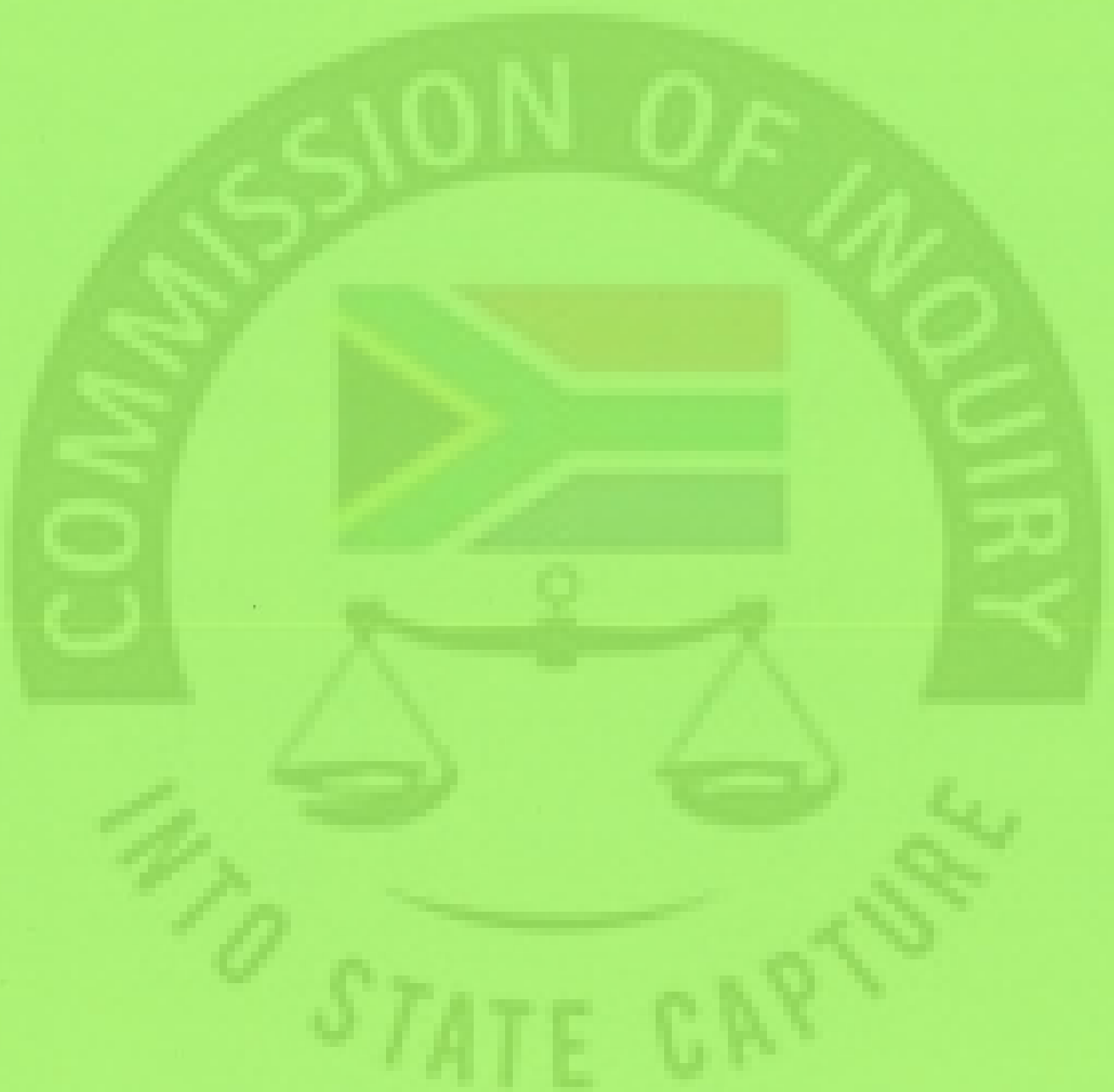
[illegible]

Part of worksheet showing milestone percentages

Note that the foreign amounts are in USD

TOTAL CASHFLOWS 1064 LOCOS			100 LOCOS CSR	60 LOCOS GE	TOTAL
31-Mar-14	4,824,230,378		1,320,000,000	1,226,259,154	7,370,489,532
31-Mar-15	5,296,242,801		1,596,760,000	155,910,092	7,048,912,893
31-Mar-16	5,996,892,523		1,351,240,000	369,629,545	7,717,762,068
31-Mar-17	16,925,184,794		132,000,000		17,057,184,794
31-Mar-18	15,427,598,883				15,427,598,883
31-Mar-19	1,077,075,031				1,077,075,031
	49,547,224,410		4,400,000,000	1,751,798,792	55,699,023,202
				check	55,699,023,202
BOMBARDIER					
CSR	13,049,206,320		4,400,000,000	1,751,798,792	
GE	18,122,320,000				
CNR	8,428,693,450				
	9,947,004,640				
TOTAL	49,547,224,410		4,400,000,000	1,751,798,792	55,699,023,202

ANNEXURE FC 18



fcallard@telkomsa.net

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 15 April 2014 10:27
To: Francis Callard Transnet Freight Rail JHB
Subject: RE: Memo BADC inc in ETC on 100 Class 19E locos 11 April
Attachments: Memo BADC inc in ETC on 100 Class 19E locos 11 April 2014.doc

Hi Francis, the cashflows were incorrect on the version I sent you. Please use cashflows per attached version.

Best Regards

Yousuf Laher CA (SA)
 Transnet Freight Rail

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 15 April 2014 09:34 AM
To: Francis Callard Transnet Freight Rail JHB (Francis.Callard@transnet.net)
Subject: FW: Memo BADC inc in ETC on 100 Class 19E locos 11 April

Hi Francis, refer attached regarding the NPV calculation, as discussed.

Best Regards

Yousuf Laher CA (SA)
 Transnet Freight Rail

From: Yousuf Laher Transnet Freight Rail JHB
Sent: 11 April 2014 07:16 PM
To: Anoj Singh Corporate JHB
Cc: Siyabonga Gama Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB; Yusuf Mahomed Transnet Corporate JHB
Subject: RE: Memo BADC inc in ETC on 100 Class 19E locos 11 April

Dear Anoj, I have updated the memo for the 100 electrics as requested.

The yellow parts must be completed by Francis Callard. I have requested that he furnishes the required information.

Please can you check the background and history for accuracy as I was not involved at that stage.

Yusuf – please can you print for Anoj.

Best Regards

Yousuf Laher CA (SA)
 Transnet Freight Rail

From: Yusuf Mahomed Transnet Corporate JHB
Sent: 11 April 2014 03:08 PM
To: Yousuf Laher Transnet Freight Rail JHB
Subject: FW: Memo BADC inc in ETC on 100 Class 19E locos or ECL 19 Mar 2014

From: Thato Dube Transnet Corporate JHB
Sent: 11 April 2014 12:37 PM

To: Yusuf Mahomed Transnet Corporate JHB

Subject: Memo BADC inc in ETC on 100 Class 19E locos or ECL 19 Mar 2014

Hi Yusuf

Please see attached is the correct updated one.

Kind Regards

Thato



ANNEXURE FC 18A





MEMORANDUM

www.transnet.net

To: Board Acquisitions and Disposals Committee (BADC)

From: Brian Molefe, Group Chief Executive

SUBJECT: INCREASE IN ESTIMATED TOTAL COST OF THE ACQUISITION OF 100 CLASS 19E DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE EXPORT COAL LINE

PURPOSE:

1. The purpose of this memo is to request the Board Acquisitions and Disposals Committee to recommend an increase in the estimated total cost (ETC) for the acquisition of 100 Class 19E Dual Voltage Electric Locomotives for the Export Coal Line from R3,871 billion to R4,840 billion, to the Board of Directors for approval.

BACKGROUND:

2. The acquisition of 100 Class 19E Dual Voltage Locomotives was approved by the Board of Directors on 24 January 2014.
3. The rationale for the investment is essentially to mitigate against the shortfall on MDS volumes anticipated due to tractive capacity shortage as a result of the delivery on the 1064 programme taking longer than expected.
4. The locomotives are destined for the Export Coal Line but will result in existing Coal Line locomotives being cascaded to the General Freight Business and will be deployed until such time that the 1064 locomotive contract starts to produce locomotives where after the cascaded locomotives will be run out.

ECONOMIC AND OTHER FACTORS THAT HAVE IMPACTED THE PRICE:

5. The submission prepared for the 24 January 2014 BADC and Board meetings were based on economic estimates obtained in May 2013. 10 months have elapsed since the initial calculations resulting in a number of parameters having materially changed between the dates of preparing the calculations and contract negotiation. These are summarised in the table below:

Table 1:

	<u>Board Submission January 2014</u>	<u>Negotiation/ Contracting Stage</u>	<u>% movem ent</u>
Rand to the Yen	0.09823	0.10878	10.74%
Local CPI	100%	105.10%	5.10% **
Local Hot rolled Steel plates Index	100%	110.80%	10.80% **
Local PPI	100%	106.40%	6.40% **
Chinese Equivalent CPI index	100%	102.50%	2.50% **
US Equivalent CPI index	100%	101.33%	1.33% **
Euro Equivalent CPI index	100%	102.08%	2.08% **
Japanese Equivalent CPI index	100%	101.34%	1.34% **

* Index movements calculated from May 13 to Mar 14

- a. Foreign exchange rates: The rand has depreciated by 10.74 % against the Japanese Yen. This has impacted the expected price of the locomotive as per the business case and ultimately the Estimated Total Cost (ETC) as approved by the board by approximately 10.74 %. It should also be considered that during the negotiation process the Rand was impacted by the possibility of war in the Ukraine which resulted in Transnet taking the view that the Rand should be fixed at current levels and negotiations and contracting should be speedily concluded.
- b. Labour cost increase: During the May 2013 to March 2014 period the cost of labour increased in South Africa and globally. Local labour will be utilised for the assembly as part of the localisation imperatives contained in the procurement strategy for the acquisition.
- c. Material cost increase: A significant component of the locomotive is steel which is firstly impacted by the steel commodity price of which the trading currency is in US Dollars. The local hot rolled steel plates index increased by 10.8 % over the period.
- d. Inflation. Local Producer Price Index increase on average by 6.4 % over the period affecting locally sourced scope of the project. Foreign equivalent indices increased on average by about 1.3 % to 2.5 % over the same period. This together with the foreign exchange deterioration indicated above resulted in the import component of the project increasing.
- e. Economic forecasts indicate that the upward trend will continue over the next few years and as the price would be agreed on a fixed basis, the bidder incorporated all these factors into calculations when agreeing to a price.
- f. The Overall impact on the locomotive price due to the change in economic conditions is summarised in the table 2 below:

6. In order to mitigate against the risk that changes to spot foreign exchange rate will materially impact the price of the locomotive over delivery period, it has been agreed with the bidder that this risk would remain on their balance sheet. It was also agreed that the bidder would be responsible for hedging the foreign exchange exposure. The cost of foreign exchange hedging is included in the price of the locomotive as detailed in table 2 below. i.e. foreign exchange risk and hedging risk for TFR is removed as the cost of hedging is now included in the price and the price is not subject to a change in foreign exchange rates. Bidders are also now responsible for the costs related to the maintenance and rolling of hedges should delays in delivery be experienced. The premium paid per locomotive to fix this foreign exchange hedging cost into the price is reflected below:
7. In order to mitigate against the risk that the cost of forward looking inflation will materially impact the price of the locomotive over the delivery period, it has been agreed with the bidder that the cost of escalation linked to forward looking inflation is included in the price of the locomotive as detailed in table 2 below i.e. escalation risk for TFR is removed as the cost of escalation is now included in the price and the price is not subject to a change in inflation related escalation indices. The premium paid per locomotive to fix this escalation cost into the price is reflected in table 2 below:

Table 2:

	<u>R (m)</u>
Price per locomotive as per Board submission 21 January 2014	34.34
Impact of the exchange rate to contract date	3.69
Impact of inflation up to contract date	1.26
Additional cost for variations/duties	3.47
Cost to fix forward escalation	4.63
Cost to fix forward forex hedging	1.08
Discount negotiated	-4.47
Final Contracted Price per Locomotive	<u>44.00</u>

8. The locomotive price is based on the above factors as well as the general outcome of the negotiation process.

FINANCIAL IMPLICATIONS:

9. The business need and rationale remains as indicated in the original submission.
10. The acquisition will benefit the Export Coal Line and create efficiency which will translate to volume increase and reduce maintenance and energy consumption costs due to the new fleet and regenerative capability respectively.
11. The locomotives to be cascaded to GFB are a temporary measure to mitigate against partial MDS volume loss.
12. The financial models for the Business case have been updated for the following based on the conditions per the signed final contracts:
 - a. Final pricing
 - b. Revised cash flow profile for the capital investments
 - c. Commensurate changes to the volume ramp up and tariff increases on commodities that are priced relative to the investment outlay.

The updated NPV result is a positive NPV of R xx million at the new hurdle rate of 15.2 % and R xx million at the TFR WACC of 12.6 %. The NPV would become a negative R xx billion at the original hurdle rate of 18.56%. [Francis Callard to provide updated calculations]

BUDGET IMPLICATIONS:

13. The investment is included in the 2014/15 seven year capital investment plan, however changes between the delivery schedule contracted and planned cash flows for the investment will be accommodated through a prioritisation process such that other investments which do not impact MDS volume targets will be deferred so that Transnet's approved key affordability limits (gearing and cash interest cover) are not breached.
14. The difference between the January 2014 business case and the cash flows agreed with the contractor is illustrated in the table below:

	Rand million				
	ETC	2014/15	2015/16	2016/17	2017/18
Business Case	3 871	1 290	1 290	1 291	
Contracted	4 840	1 320	1 888	1 487	145
Difference	(969)	(30)	(598)	(196)	(145)

*10% added for options, variation orders, special tooling, test equipment, initial spares and capital spares

RECOMMENDATION:

12. It is recommended that the Board Acquisitions and Disposals Committee recommends the increase in estimated total cost of the Acquisition of 100 Class 19E Dual Voltage Electric Locomotives for the Export Coal Line from R3,871 billion to R4,840 billion to the Board of Directors for approval.

Compiled by:

Anoj Singh
Group Chief Financial Officer
Date:

Recommended by:

Brian Molefe
Group Chief Executive Officer
Date:

To: Yusuf Mahomed Transnet Corporate JHB

Subject: Memo BADC inc in ETC on 100 Class 19E locos or ECL 19 Mar 2014

Hi Yusuf

Please see attached is the correct updated one.

Kind Regards

Thato



ANNEXURE FC 19



fcallard@telkomsa.net

From: Frikkie Harris Transnet Freight Rail JHB
Sent: 06 June 2014 15:45
To: Francis Callard Transnet Freight Rail JHB
Subject: FW: Class 20E production progress concernsfw.docx
Attachments: Class 20E production progress concernsfw.docx

Follow Up Flag: Follow up
Flag Status: Flagged

From: Frikkie Harris Transnet Freight Rail JHB
Sent: 06 June 2014 03:11 PM
To: Rita Roper Transnet Freight Rail JHB; Willem Kuys Transnet Freight Rail JHB
Cc: Eugene Rossouw Transnet Freight Rail PTA
Subject: Class 20E production progress concernsfw.docx

Ms Roper, Mr Kuys

The attached document for your attention and information and must be read together with my message to you earlier (letter from CSR to TE).

This document lists the concerns of the Project Team as witnessed by Mr Eugene Rossouw and Mr Peet Zeelie when they visited the Koedoespoort assembly plant on Thursday 5 June 2014.

This also confirms that there will definitely be a delay on the delivery of further Class 20E locomotives to TFR. Delay might possibly be 3 months or longer. We understand that it is CSR's responsibility as Main Contractor to deal with TE (we treat it as such and do not communicate with TE directly!) but Transnet Freight Rail should take serious note.

I suggest that the information be shared with the rest of the Steerco – your decision.

Regards. Frikkie.

Class 20E production progress concerns

1. Refer to the attached photos of the 2nd batch of class 20E's taken on 5 June 2014 at TE, Koedoespoort.
 - Note that loco E20015 is still on blocks and this loco was scheduled to be handed over in May for acceptance in June 2014.
2. The current assembly process at TE is a serious matter of concern.
 - CSR/TE is scheduled to hand over locos E20016 to E20021 in June for acceptance in July 2014. The photos clearly show a lack of planning for assembly of the locos. It seems that TE has loaded all the resources on the first 5 class 20E locos and forgotten about the assembly of the 2nd batch of locos. TE has 3 weeks to hand over these 6 locos for acceptance testing?
3. The CSR letter dated 29 May 2014, copy to TFR
 - TE is clearly not in control of their assembly process - the assembly time of locos has in actual fact increased from 59 days for loco E20011 to 74 days for E20015.
4. Under frame sub-assemblies and bogie frame assembly lines -progress of loco E20026 (first TE manufactured loco).
 - Loco frame is in the rotator for welding. Many of the sub-assemblies cannot be completed because the parts have not been delivered!!
 - TE also decided not to purchase Rotators on a one-for-one basis for the sub-assembly jigs, therefore if a certain jig is required to weld a sub-assembly, the operator must first remove the jig and install another jig to proceed with the manufacture of the sub-assembly. This is a time consuming process!!
5. TE have designed their own underframe rotator and purchased 1 rotator from CSR which is superior ergonomically to expedite the welding of inverted components (the Rotator can be positioned at any angle for welding purposes.
 - The TE rotator can only be used in a horizontal plane/vertical plane. TE has only now decided to order additional Rotators from CSR but they will only be available in August 2014. The lack of special tools will have an impact on the manufacturing of the locos.
6. TE has made a request to CSR to increase the kit supply from CSR ZELC.
 - Advised that CSR E-Loco must also advise TFR SCS of the request as it will have a direct impact on the class 20E localisation targets.
 - The fact that TE has made the request at such a late stage shows that either the TE Purchasing Department does not have control of their orders or the local suppliers cannot deliver material to specification or schedule.
7. Productivity levels for the class 20E project seem to be extremely low.
 - Very few TE staff working in all work stations although seemingly fully staffed.
 - Seems as if the TE staff is not proud to work on the class 20E locos and could not be bothered to adhere to the tight delivery schedule.

- The fact that CSR sent a letter to TE on 29 May 2014 created the expectation that TE Management would have communicated the message to their staff that the project is in trouble and they are due for penalties for late delivery- either not communicated yet or not bothered to do so.

8. Possible recovery of the expected delays

- Request CSR E-Loco to send 20 to 30 assembly CSR technicians to TE. This will obviously cost TE but at least it will bring the project back on schedule.
- Although the class 20E, 21E and 22E projects are not related, the assembly delay in TE will have a direct impact for the assembly of the 60 class 21E (40 imported) and assembly and manufacture of 319 class 22E locos (40 locos imported).
- CSR E-Loco and TE Project Management will have to sit around the table to plan a workable solution.

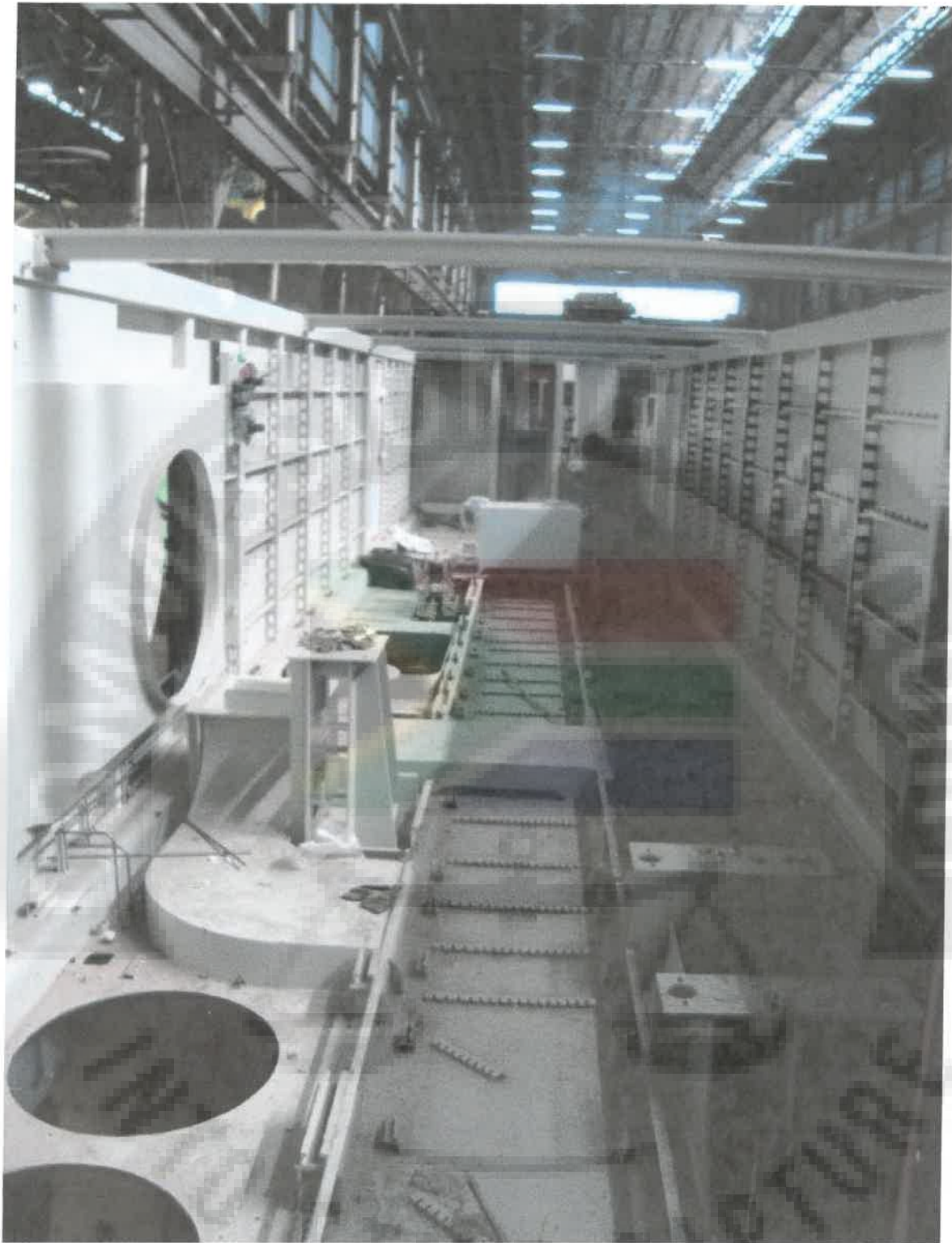
9. Additional Risk

- Although the class 20E, 21E and 22E projects are not related, the assembly delay in TE will have a direct impact for the assembly of the 60 class 21E (40 imported) and assembly and manufacture of 319 class 22E locos (40 locos imported)
- Same TE practice might have same result on BT, GE and CNR take note that the Bayhead workshop is basically "empty" and have to be prepared for production in just more than 1 year.



E 20021

UNITED STATES CAPTURE



E 20020



E20019



E 20017



E20016



E20015

UNITED STATES CAPTURE

ANNEXURE FC 20



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 10 June 2014 09:18
To: Rita Roper Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB
Subject: RE: Confidential 100 Locomotives
Attachments: Memo v1 100 Delivery.docx

Hi Rita and JD

I updated the memo with JDs' comments and have also completed the commissioning table.

Changed the term 19E equivalents to Class 21E

Regards

Francis

From: Francis Callard Transnet Freight Rail JHB
Sent: 09 June 2014 12:18 AM
To: Rita Roper Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB
Subject: Confidential 100 Locomotives

Hi Rita

Please see the draft memo on the delivery of the 100 per Friday. I have still to confirm with Frikkie on the commissioning dates.

JD.

You were part of the mandated group. Given the possible revised dates, please comment on the mitigating effect of the locomotives in the last quarter considering that the coal line will still have to be cascaded. I think it will be tight.

I have kept the term 19E equivalents on the assumption that is what the GCE would be familiar with.

Regards.

Francis

Francis Callard
Capital Program
083 283 1593



MEMORANDUM

www.transnet.net

To: Brian Molefe, Group Chief Executive

From: Siyabonga Gama, Chief Executive, TFR

SUBJECT: MANUFACTURE 100 CLASS 21E DUAL VOLTAGE ELECTRIC LOCOMOTIVES (PREVIOUSLY 19E EQUIVALENTS) IN CHINA.

PURPOSE:

1. This memo requests that the recently approved 100 Class 21E locomotives be manufactured at the CSR facilities in China and imported as complete units. This would be a change to the current program where 40 are manufactured at the CSR facilities and the remaining 60 are assembled by Transnet Engineering.

BACKGROUND:

2. The motivating submission proposed an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Class 21E locomotives to CSR (China South Rail) and extending the current class 43 contract with GESAT (General Electric South Africa) by 60 diesel locomotives. The accelerated acquisition would mitigate the MDS shortfall by at least a year with its full effect realised commencing 2014/15.
3. The heavy haul 100 Class 21E locomotives will be deployed in the Coal Export Line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 program.
4. The original proposal on the 100 locomotives was for 56 operational locomotives to be delivered in 2014/15 and 44 in 2015/16
5. The contracted delivery schedule provides for 36 locomotives delivered in 2014/15 and 64 in 2015/16.
6. This delivery is further exacerbated the locomotives having to undergo type testing and approval which impacts the first deliveries to the such that no locomotives will be operationally available in 2014/15.
7. The net effect is that there is no relief in 2014/15 from the 100 Class 21E locomotives.
8. The 100 Class 21E locomotives would have protected 2.4m tons in 2014/15 and 4.4m tons in 2015/16 per the original submission.

DISCUSSION

9. TFR engaged CSR on its (TFR's) desired expedited delivery program. CSR responded by advancing the CSR manufactured locomotives by 3 months but the TE assembled locomotives were only advanced by one month. This is set out in the table in Annexure A.
10. To assist meeting TFR's requirements, CSR further proposed that the full 100 locomotives be manufactured at their facilities in China which would result in the complete delivery ex-factory in 2014/15.

IMPLICATIONS

11. The implications cover:
 - i) Effect on TE
 - ii) Impact of the accelerated delivery
 - iii) Localisation
12. **Effect on TE:** CSR were one of successful bidders for the 1064 locomotive program. They are currently assembling the 95 Class 20E dual voltage electric locomotives at TE's Koedoespoort facilities. On completion of the 95 contract, the production line would switch to the 60 locally assembled Class 21E and thereafter to the 359 locomotives being their allocation of the 1064 locomotives. These programs all run back-to-back.
13. The sequential assembly of the 95 Class 20E, the 60 (of the 100) 21E and the 399 class 22E are all planned for one line. Opening a second line for the CSR locomotives is not practical considering that it has to be equipped (jigged) and the staff and skills required will come out of a limited pool.
14. The 95 Class 20E program is currently behind schedule. This is attributed to delays in the TE line being set up and skills being transferred for local assembly. It is anticipated that recovery efforts notwithstanding, this delay will have a knock-on effect on the 60 locally assembled Class 20E locomotives. This in turn will have a knock-on effect on the 359 Class 22E locomotives as local assembly is due to start in July 2015 with the first locally assembled locomotives coming of the production line on December 2015
15. Removing the 40 19E equivalent locomotives from the assembly lines provides a buffer for TE and CSR to accommodate any residual delay in the 100 Class 20E program and to setup production for the 359 Class 22E locomotives where no delay can be tolerated.

16. Accelerated Delivery:

Month	Oct -14	Nov -14	Dec -14	Jan -14	Feb -15	Mar -15	Apr -15	May -15
CSR	5	15	20	20	20	20		
SA Port		5	15	20	20	20	20	
Commission			20	20	20	20	20	
Operational Cumulative				20	40	60	80	100

17. The Class 20E locomotives have to undergo obligatory type approval by the RSR (Rail Safety Regulator) and operational testing.
18. The accelerated delivery provides Class 21E operational locomotives per the above table. These in turn will protect approximately 0.5mt.
19. **Localisation:** The duration of the 100 Class 20E locomotive contract is under a year.
20. The 60% localisation target for electric locomotives per PPPFA National Treasury Instruction Note (dated 16-07-2012) on 'Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector' (Section 3 (3.1)) would not be met and exemption would have to be sought.
21. The progressive Local Content for Designated Components (Section 3 (3.2)) applies to contracts of three years and longer. As the contract will be fulfilled in one year, the stipulations do not apply.

RECOMMENDATION:

22. It is recommended that approval be given to negotiate delivery with CSR on the premise of 100% imported content for the 100 Class 20E locomotives.
23. Other terms and conditions of the contract, including price, would remain unchanged.

Recommended by:

 Siyabonga Gama
 Chief Executive, Transnet Freight Rail
 Date:

Approved / Not approved:

 Brian Molefe
 Group Chief Executive Officer
 Date:



Annexure A



Proposals for Delivery of 100 Sets of 21E Coal Line Locomotives

Delivery months	Contracted Delivery Schedule			TFR Expected Delivery Schedule based on 40 in China and 60 in TE			Accelerated Delivery Schedule 1 based on 40 in China and 60 in TE			Accelerated Delivery Schedule 2 based on 100 in China	
	Handover by CSR	Delivered by TE	Total delivered per month	Delivered by CSR	Delivered by TE	Total delivered per month	Delivered by CSR	Delivered by TE	Total delivered per month	Delivered by CSR	Total delivered per month
Sep-14				10		10					
Oct-14				15		15	2		2	5	5
Nov-14				15	5	20	15		15	15	15
Dec-14					10	10	15		15	20	20
Jan-15	2		2		10	10	8		8	20	20
Feb-15	15		15		10	10		4	4	20	20
Mar-15	15	4	19		10	10		12	12	20	20
Apr-15	8	12	20		10	10		12	12		
May-15		12	12		5	5		12	12		
Jun-15		12	12					12	12		
Jul-15		12	12					8	8		
Aug-15		8	8								
Total	40	60	100	40	60	100	40	60	100	100	100

Page 2 of 3

南车电力机车项目公司
CSR E-LOCO SUPPLY (PTY) LTD.

Registration No.: 2012/12851/27
VAT No.: 450281837
Address: 1st Floor, China Construction Bank Building,
95 Graydon Drive, Sandton, 2196, Johannesburg
Tel.: +27-10 007 1127 Fax: +27-96 559 7734

ANNEXURE FC 21



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 24 October 2014 13:13
To: Niresh Budhai Transnet Corporate JHB
Cc: Frikkie Harris Transnet Freight Rail JHB
Subject: RE: Risk mitigation plans for the 100 CoalLine locos

Hi Niresh

Please see additions / alterations

Francis

From: Niresh Budhai Transnet Corporate JHB
Sent: 24 October 2014 09:45 AM
To: Francis Callard Transnet Freight Rail JHB
Subject: Risk mitigation plans for the 100 CoalLine locos

Hi Francis

Please review below:

Risk	Mitigating actions
Interoperability. The locomotives are different to the existing fleet and the communication protocols between the new CSR locomotives and existing Class 19E locomotives are not compatible	Equipping the new fleet being acquired with wired distributed power will allow the two models to operate in consist.
Speed of delivery	The CSR plan in China which will manufacture the first batch of locomotives is capable of producing 900 to 1000 locomotives per annum. It is envisaged that the first 40 locomotives will be imported and 60 locomotives assembled locally
Design risk	The 100 locomotives are class 21E. They are based on the existing 20E design (95 locomotives) and are the same in all respects except for weight. This was increased in order to match the tractive effort of the 19E. The traction blower motors were also increased to cater for the increased power demand. With these modifications only, the 100 locomotives could be delivered expeditiously. Note that the design includes axle control instead of the bogie control of the 19E. This is highly desirable as it improves control of the locomotive tractive effort.
Operational readiness	Brief conversion course for drivers to enable them to operate the new fleet being acquired. Training on maintenance practices will follow the same approach as for the 1064 locomotive acquisition and therefore considered low risk. The cab layout is identical to the 20E and the simulator for driver training is already operational in South Africa.

Work on the basis that the decision has already been taken to go with CSR.

Thanking you

Regards
niresh



ANNEXURE FC 22



fcallard@telkomsa.net

From: Frikkie Harris Transnet Freight Rail JHB
Sent: 08 December 2014 16:06
To: Francis Callard Transnet Freight Rail JHB
Subject: Delivery schedule 1224fwh.xlsx
Attachments: Delivery schedule 1224fwh.xlsx

Francis

Delivery schedule as requested.

The changes from the original is highlighted in green. Note that the end date of the 95 is still the same as planned originally but we have serious doubts whether TE will be able to do this. This is however the promise made to Group by CSR/TE.

The change to the 60 Class 43D means that a total of 43 locos will be received for FY14/15 and 17 for FY 15/16. The original plan indicated 17 for FY 14/15 and 43 for FY 15/16.

Regards. Frikkie.

DATES	BT 240 (23E)	CSR 359 (22E)	GE 233 (44D)	CNR 232 (45D)	CSR 100 (21E)	GE 60 (43D)	CSR 95 (20E)
18-Feb-14							
01-Apr-14							
01-May-14							
01-Jun-14							
01-Jul-14							
01-Aug-14							
01-Sep-14						1	
01-Oct-14						6	
01-Nov-14						6	
01-Dec-14						4	10
01-Jan-15						0	20
01-Feb-15					2	8	22
01-Mar-15					15	8	23
01-Apr-15					19	10	
01-May-15					20	15	
01-Jun-15					12	2	
01-Jul-15					12		
01-Aug-15		2			12		
01-Sep-15		8			12		
01-Oct-15		12		2	8		
01-Nov-15		15	8				
01-Dec-15	3	18	6				
01-Jan-16	3	9	6				
01-Feb-16		12	6	8			
01-Mar-16		12	8	10			
01-Apr-16	13	12	10				
01-May-16	12	12	8				
01-Jun-16	12	12	12	2			
01-Jul-16	12	12	12	3			
01-Aug-16	12	12	12	5			
01-Sep-16	12	12	12	5			
01-Oct-16	12	12	12	12			
01-Nov-16	12	12	12	12			
01-Dec-16	8	10	12	12			
01-Jan-17	8	12	6	12			
01-Feb-17	12	12	6	12			

* Received 25 by end of October.

	BT 240 (23E)	CSR 359 (22E)	GE 233 (44D)	CNR 232 (45D)	CSR 100 (21E)	GE 60 (43D)	CSR 95 (20E)
01-Mar-17	12	12	12	12			
01-Apr-17	12	12	12	12			
01-May-17	12	12	8	12			
01-Jun-17	12	12	12	12			
01-Jul-17	12	12	12	12			
01-Aug-17	12	12	12	12			
01-Sep-17	12	12	12	12			
01-Oct-17	12	12	5	12			
01-Nov-17	12	12		12			
01-Dec-17	1	10		12			
01-Jan-18		12		12			
01-Feb-18		11		5			
01-Mar-18							
01-Apr-18							
01-May-18							
	240	359	233	232	100	60	1224

ANNEXURE FC 23



ANNEXURE FC 24



ANNEXURE FC 25



E. SUPPORTING DOCUMENTATION

1. 7-year commodity growth

	GENERAL FREIGHT GROUP FLOW	YEAR							Tons Increase	MAJOR ASSUMPTIONS/INITIATIVES
		2013/14 Budget	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20		
AGRICULTURE & BULK LIQUID	GRAIN, MAIZE, WHEAT & FOODSTUFFS	4.184	4.477	4.950	5.844	6.055	6.304	6.635	2.451	Domestic harvests average between 10mtpa - 14mtpa, weather permitting. Demand projection represents TFR's increased share of total market demand as more traffic is shifted from road to rail. Agri-logistics and rural infrastructure - Transnet's rail and port capacity to support agri-logistics including branch lines development
	COMMODITIES NOT CLASSIFIED IN GROUPS	2.762	2.822	3.101	3.796	4.018	4.147	4.335	1.573	OTHER AGRICULTURE PRODUCE for instance BEANS, FMCG (SUGAR etc) as well as GASSES. Demand projections indicates increased volumes by rail in support of the NMPP. Also, there has been increased overborder demand from Botswana and Mozambique
	TIMBER	2.490	2.576	2.894	3.363	3.485	3.646	5.118	2.628	- Sappi Ngodwana - Production expansion will increase demand in 2013 by 115,000 tons from Piet Retief and Lothair areas. The plant will be completed in 2013. - The expansion of the Sappi SAICCOR Wood yard rail to increase timber intake by 75,000 pa by 2013. Mondi Iswepe building new private siding
	PETROLEUM LIQUIDS (DOMESTIC)	1.381	1.381	1.472	1.643	1.691	1.731	1.750	0.369	
	IRON ORE (SWAZILAND HEMATITE)	0.000	1.210	1.210	1.210	1.210	1.210	1.210	1.210	
	CHEMICALS	0.801	0.871	0.895	0.975	0.983	0.976	1.009	0.208	
	PETROLEUM LIQUIDS (OVERBORDER)	0.790	0.790	0.830	0.897	0.921	0.944	0.956	0.166	
	COAL (DOMESTIC - OTHERS)	0.104	0.108	0.109	0.115	0.118	0.118	0.124	0.020	
	LIME	0.061	0.062	0.069	0.073	0.076	0.077	0.080	0.019	
	ROCK PHOSPHATE (DOMESTIC OTHER)	0.054	0.056	0.062	0.067	0.069	0.071	0.073	0.019	
	COAL (EXPORT RICHARDS BAY - DBT)	0.030	0.033	0.034	0.034	0.034	0.034	0.033	0.002	
	CONTAINERS (3M, 6M, 12M & NON-ISO STANDARD)	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.000	
	TOTAL AGRICULTURE & BULK LIQUID	12.659	14.388	15.628	18.018	18.661	19.259	21.324	8.665	
COAL	COAL (ESKOM - MAJUBA)	8.794	9.392	12.054	13.836	13.816	14.000	14.000	5.206	Eskom road to rail migration plan. Eskom Majuba heavy haul line coming on stream in 2014 - increase tons to 14mt
	COAL (EXPORT TCM/MAPUTO)	3.680	4.376	5.925	6.421	9.049	11.735	10.964	7.284	TCM expansion plan is to grow to 16mt in the next five years due to Limpopo projects (Vele and Makhado).
	COAL (ESKOM - TUTUKA)	0.000	0.000	0.000	5.500	6.000	6.500	7.500	7.500	Thuthuka will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
	COAL (DOMESTIC - OTHERS)	1.881	2.696	2.825	2.889	3.047	3.047	3.388	1.507	Coal deliveries to the Mondi and SAPPi papermills, will increase based on the growth in electricity usage over the next year.
	COAL (EXPORT DURBAN WESTS)	1.434	1.771	2.237	2.940	2.940	2.960	2.705	1.272	Transnet: SA Coal transportation system development, Export coal line, Waterberg developments, Swazi Rail link, Coal backbone capacity, Eskom Road to Rail, Cross-border connections
	COAL (ESKOM - GROOTVLEI)	0.000	0.000	0.000	0.000	5.000	5.000	5.000	5.000	Grootvlei will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
	COAL (EXPORT RICHARDS BAY NAVITRATE)	0.638	1.046	1.183	1.854	1.854	1.854	1.998	1.360	Transnet: SA Coal transportation system development, Export coal line, Waterberg developments, Swazi Rail link, Coal backbone capacity, Eskom Road to Rail, Cross-border connections
	COAL (ESKOM - ARNOT)	0.000	0.000	0.000	2.000	2.000	2.000	2.000	2.000	Commissioning and conclusion of the Amot Powerstation
	COAL (EXPORT RICHARDS BAY - DBT)	0.430	0.637	0.702	0.901	0.901	0.901	0.969	0.540	
	TOTAL COAL	16.856	19.918	24.927	36.341	44.606	47.997	48.525	31.669	
EXPORT IRON ORE LINE & MANGANESE	MANGANESE (EXPORT - ALGOABAY PE)	5.100	5.100	8.000	9.897	13.138	14.357	16.000	10.900	SA's share of world output set to grow with junior miners and organic growth of traditional clients. New entrants are expected to commence with their respective productions in 2013/14. Global economy recovers from the current slump and demand from China does not subside. 16mtpa Manganese expansion in Ngqura materialises. South Eastern node & corridor development - Transnet: Ngqura Transshipment Hub, integrated CDC development and Manganese Export Corridor.
	MANGANESE (DOMESTIC)	1.950	1.950	1.900	1.567	1.560	1.705	1.900	-0.050	
	MANGANESE (EXPORT DURBAN)	1.300	1.300	1.200	0.989	0.164	0.179	0.200	-1.100	
	FERRO-MANGANESE	0.255	0.266	0.375	0.495	0.598	0.691	0.700	0.445	
	COAL (DOMESTIC - OTHERS)	0.095	0.100	0.100	0.100	0.100	0.100	0.100	0.005	
	TOTAL EXPORT IRON ORE LINE & MANGANESE	8.700	8.716	11.575	13.047	15.560	17.032	18.900	10.200	

Transnet Freight Rail	Capital projects
1064 Locomotives Team	25/04/2013
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INTERMODAL	CONTAINERS (3M, 6M, 12M & NON-ISO STANDARD)	8.852	8.096	9.273	10.293	10.358	10.883	11.647	2.796	Linked to GDP growth. Refurbishment and establishment of terminals. Containerising mineral products at key loading sites. Development of Freight Hubs in areas such as Polokwane and Bloemfontein; New Castle Terminal. Delink Strategy: Kingsrest Yard Rail Stack; Reconfigure Bayhead Yard to push back trains. Durban – Free State – Gauteng Logistics and Industrial Corridor - Transnet: Port of Durban expansions, new dig-out port, Natcor rail capacity expansion, Gauteng hubs and terminals development Transnet Integrated Container Strategy in consultation with current and potential customers.
	COAL (ESKOM - CAMDEN COAL IN CONTAINERS)	2.647	2.200	2.966	4.272	4.376	5.272	5.798	3.151	Coal deliveries to the Powerstations will increase based on the growth in electricity usage over the next years. Camden will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
	COAL (ESKOM - GROOTVLEI COAL IN CONTAINERS)	0.600	1.827	2.736	4.881	0.000	0.000	0.000	-0.600	
	COAL (ESKOM - TUTUKA COAL IN CONTAINERS)	0.000	1.800	2.888	0.000	0.000	0.000	0.000	0.000	
	AUTOMOTIVE (MOTORVEHICLES)	0.490	0.310	0.414	0.438	0.465	0.493	1.274	0.784	
	COMMODITIES NOT CLASSIFIED IN GROUPS	0.026	0.026	0.029	0.034	0.036	0.037	0.040	0.014	
	STEEL (DOMESTIC)	0.014	0.010	0.015	0.017	0.019	0.019	0.022	0.008	
	CEMENT	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	
	TOTAL INTERMODAL	12.628	14.269	18.321	19.935	15.253	16.705	18.781	6.153	
	COMMODITIES NOT CLASSIFIED IN GROUPS	4.261	3.553	4.825	6.756	6.918	7.007	7.477	3.216	Included in this group is Gold Ore & Other lesser Minerals and Ore Mining. These commodities currently enjoy a healthy demand.
MINERAL MINING & CHROME	MAGNETITE (EXPORT RICHARDSBAY)	4.170	4.293	4.782	5.300	5.300	5.300	5.300	1.130	Demand mainly from China – driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started.
	CHROME (EXPORT RICHARDSBAY)	2.755	3.466	4.359	5.160	5.395	5.555	5.715	2.960	
	MAGNETITE (EXPORT MAPUTO)	2.405	3.567	4.250	4.615	4.839	4.839	6.000	3.595	Demand mainly from China – driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started.
	ROCK PHOSPHATE (DOMESTIC RICHARDS BAY NAVITRATROC)	1.717	1.929	2.232	2.618	2.822	2.822	3.000	1.283	Building Drier 9 to support current 7 year demand
	FERRO-CHROME	1.809	1.954	2.174	2.429	2.572	2.665	2.790	0.981	
	CHROME (DOMESTIC)	0.423	0.467	0.542	0.595	0.600	0.605	0.610	0.187	
	ROCK PHOSPHATE (EXPORT RICHARDS BAY)	0.297	0.334	0.386	0.435	0.560	0.554	0.600	0.303	
	MAGNETITE (DOMESTIC BROODSNIERSPLAAS)	0.164	0.164	0.241	0.281	0.374	0.476	0.800	0.636	
	COAL (DOMESTIC - OTHERS)	0.262	0.295	0.310	0.310	0.310	0.310	0.310	0.048	
	CHROME (EXPORT DURBAN)	0.195	0.202	0.238	0.250	0.260	0.260	0.270	0.075	
STEEL & CEMENT	CHROME (EXPORT MAPUTO)	0.026	0.040	0.057	0.072	0.084	0.094	0.104	0.078	
	CHEMICALS	0.037	0.040	0.042	0.049	0.052	0.054	0.058	0.021	
	LIME	0.010	0.010	0.016	0.020	0.022	0.024	0.027	0.017	
	FERRO-MANGANESE	0.001	0.001	0.001	0.002	0.002	0.002	0.002	0.001	
	TOTAL MINERAL MINING & CHROME	18.532	20.317	24.454	28.892	30.110	30.567	33.063	14.531	
	COAL (DOMESTIC - OTHERS)	5.240	6.631	7.660	8.485	9.024	9.024	9.511	4.271	Driven by growth in other industries, e.g. steel, cement, timber etc
	CEMENT	4.585	5.204	5.661	6.111	6.265	6.271	6.343	1.758	Volumes to increase in line with SA's GDP growth (4% on average). TFR also targeting rail-friendly volumes in this sector. There is roughly 4mt of bagged cement currently on road. The Road to Rail strategy aim is to target 300,000 tons in the 1st year and gradually capture more over the 7 year period.
	IRON ORE (DOMESTIC - SISHEN IRON ORE YARD)	3.702	4.020	4.156	4.286	4.419	4.464	4.465	0.762	
	IRON ORE (DOMESTIC SISHEN)	1.082	2.673	3.639	3.731	3.839	3.839	3.840	2.758	Increases in domestic steel production supported by government infrastructure development plan Domestic and regional consumption of steel fueling demand for iron-ore & new export project by Aquila from Thabazimbi to Maputo.
	COMMODITIES NOT CLASSIFIED IN GROUPS	1.774	1.848	1.937	2.338	2.407	2.784	2.879	1.105	These include dolomite, iron slag etc used in the production processes of the Steel Manufacturers and is linked to increased output in the production processes.
STEEL & CEMENT	LIME	1.451	1.536	2.186	2.417	2.501	2.497	2.595	1.144	Lime used in the production processes of the Steel Manufacturers and is linked to increased output in the production processes.
	IRON ORE (DOMESTIC ROOSSENEKAL)	1.639	2.160	2.159	2.152	2.159	2.159	2.160	0.521	
	IRON ORE (EXPORT MAPUTO)	0.000	0.000	1.832	1.945	1.999	3.999	4.000	4.000	
	IRON ORE (DOMESTIC - THABAZIMBI)	1.265	1.337	1.718	1.841	1.899	1.899	1.900	0.635	
	STEEL (EXPORT - DURBAN)	0.460	0.560	0.634	0.907	0.932	0.932	0.937	0.477	
	STEEL (DOMESTIC)	0.339	0.365	0.427	0.627	0.629	0.628	0.632	0.293	
	IRON ORE (DOMESTIC BEESHOEK)	0.203	0.215	0.247	0.263	0.270	0.270	0.270	0.067	
	STEEL (EXPORT - RICHARDSBAY)	0.078	0.088	0.088	0.104	0.104	0.104	0.105	0.027	
	IRON ORE (DOMESTIC POSTMASBURG)	0.005	0.010	0.012	0.012	0.012	0.012	0.012	0.007	
	STEEL (EXPORT MAPUTO)	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.000	
TOTAL STEEL & CEMENT		21.836	26.657	32.367	35.229	36.469	38.894	39.659	17.824	
TOTAL MDS		91.212	104.265	127.272	151.461	160.659	170.454	180.252	89.041	

ANNEXURE FC 26



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 09 April 2013 10:51
To: 'fabio_pedrazzi@mckinsey.com'; 'naseem_saloojee@mckinsey.com'; Thembi Lekganyane Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: FW: ECONOMIC ASSUMPTIONS TO SUPPORT 7 YEAR MDS
Attachments: ECONOMIC ASSUMPTIONS TO SUPPORT 7 YEAR MDS.docx

Hi All

Current view which should be included in the RISK and section.

Regards

Francis

From: JP Nelson Transnet Freight Rail JHB
Sent: 09 April 2013 10:17 AM
To: Francis Callard Transnet Freight Rail JHB; Stevens Tjabadi Transnet Freight Rail JHB
Cc: Nyembezi Magagula Transnet Freight Rail JHB; Katlego Tlhabanelo Transnet Freight Rail JHB; Michael Chauke Transnet Freight Rail JHB
Subject: ECONOMIC ASSUMPTIONS TO SUPPORT 7 YEAR MDS

Hi Francis/Stevens

Included is some assumptions on the economic conditions going forward compiled by Nyembezi.

Regards!

JP Nelson

COMMERCIAL - MARKET RESEARCH & INSIGHTS

Tel: +2711 544-9562
Fax: +2711 774-9645

Cell: +2783 400-7891

E-Mail: Jean.Nelson@transnet.net



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ECONOMIC ASSUMPTIONS TO SUPPORT 7 YEAR MDS

Global GDP

- Global GDP forecast has been downgraded for the third time this year to between 3.3 and 3.5% for the year and between 3.6% and 3.8% for 2013
- SA GDP growth has been reduced from 3.1% earlier in the year to between 2.3 and 2.5 for 2012 and between 2.7% to 2.9 for 2013 – based on actual experience in Q3, formal forecasts appear optimistic

Global Trade

- Global trade growth is forecast shrink to 3.2% in 2012 from 12.6% and 5.8% in 2010 and 2011 respectively before a slight recovery in 2013

Commodity Prices

- The average price based on world commodity export weights is expected to fall by 9.5% and 2.9% in 2012 and 2013 respectively, from assumptions of 17.8% and 26.3% increases in 2011 and 2010 respectively
- Oil prices to grow marginally by 2.1% in 2012, followed by 1% fall in 2013
- Falling prices of key commodities of coal and iron ore will have a significant volume impact on TFR

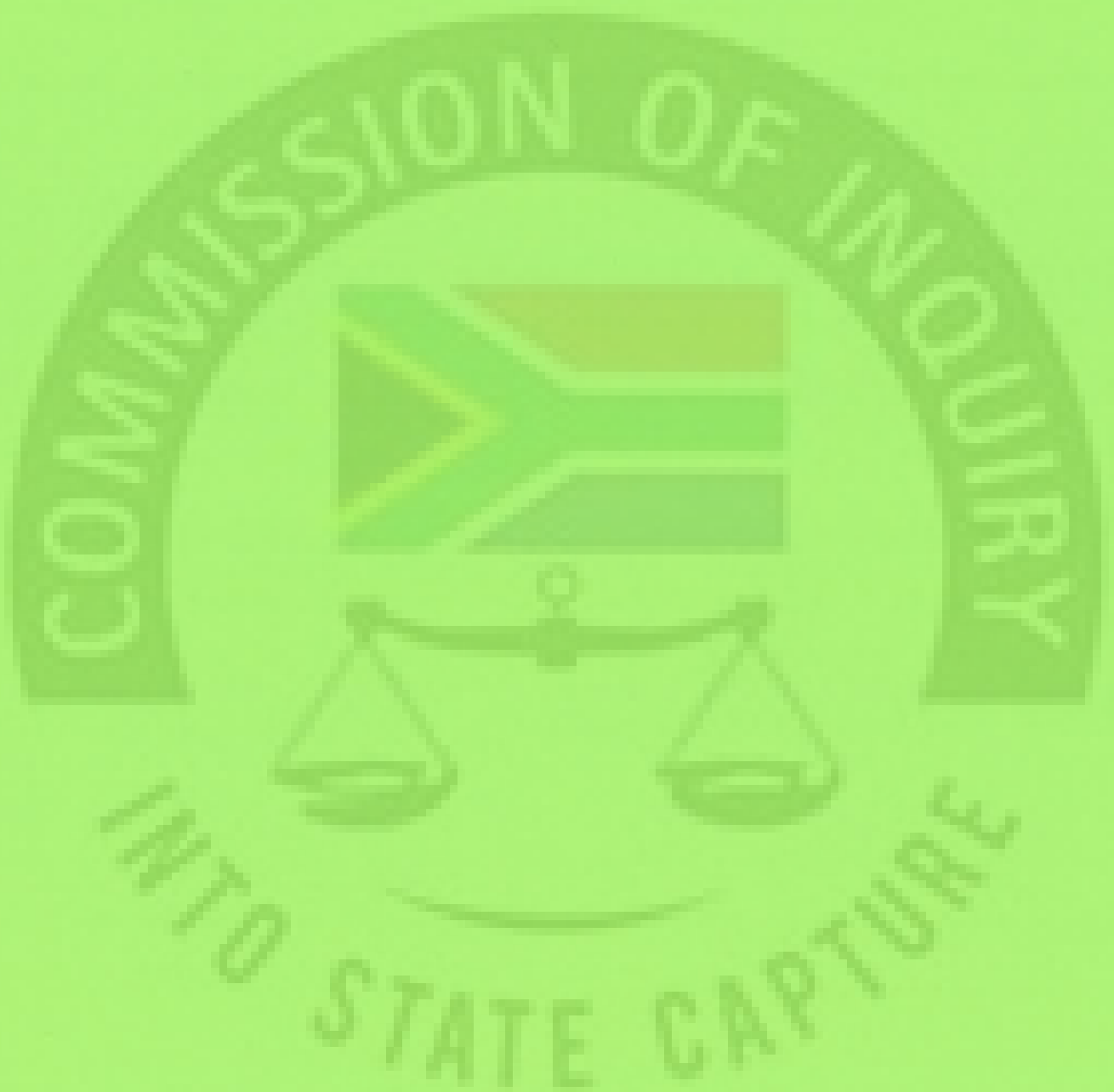
SA Mining Production Index

- SA mining production index fell by 0.8% or 0.7 points in 2011 to 91 points. YTD monthly average mining production index is 88 points down by 3.9% compared to last years

Exchange Rate Forecast

- The weaker Rand will support exports, and to some extent commodity exports but raises the price of imports – particularly crude oil

ANNEXURE FC 27



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 10 May 2013 15:22
To: Nyembezi Magagula Transnet Freight Rail JHB
Cc: Christo van der Merwe Transnet Freight Rail JHB
Subject: ArcelorMittal 7 yr MDS
Attachments: Newcastle Works Presentation - Investec (4June2012).pdf; Saldanha Analyst presentation.pdf; Vanderbijlpark Works presentation during analyst and fund manager site visit – 8 June 2011.pdf

Hi Nyembezi

Please look at the attached presentations. They indicate ArcelorMittal has a total installed capacity of 8mt per annum.

- Vanderbijlpark plant – 4.5 Mtpa Crude Steel Capacity
- Saldanha Steel – 1.2 Mtpa Crude Steel Capacity
- Newcastle plant – 1.9 Mtpa Crude Steel Capacity
- Vereeniging plant – 0.4 Mtpa Crude Steel Capacity

This may exclude shut down capacity all the presentations agree.

The 7 year MDS indicates that we will ramp up to over 10mt of iron ore to ArcelorMittal.

I think the MDS is overstated but would you check please.

Regards

Francis

ANNEXURE FC 28



fcallard@telkomsa.net

Subject: Alignemnt Coal Projects and Interdependencies / Scrubbing
Location: TBA - Inynada 4

Start: Tue 21/05/2013 06:30
End: Tue 21/05/2013 10:30
Show Time As: Tentative

Recurrence: (none)

Meeting Status: Not yet responded

Organizer: Francis Callard Transnet Freight Rail JHB
Required Attendees: Gene Beilings Transnet Freight Rail JHB; Sifiso Nzimande Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Willem Kuys Transnet Freight Rail JHB; Deirdre Strydom Transnet Freight Rail JHB; Johan Boucher Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Andries van_Ross Transnet Freight Rail JHB; Galetlolle Moeketsi Transnet Freight Rail JHB

Colleagues

Please can we meet to align on the coal projects and implications for the way forward.

The purpose of the meeting is to determine the extent of our alignment problem with perhaps another meeting to determine the way forward.

Known alignment issues:

- Coal tons per 7 year MDS – origin and destination. What are the figures we are agreeing on. (Willem and Francis to meet beforehand re different source data)
- Impact of new Coal Line operating practice on previous thinking regarding points below.
- What of Coal 81 and Coal 91 must be accelerated / slowed / stopped
- Waterberg tons and ramp and impact on Mpumalanga Coalfield exports
- Waterberg supply of coal and traction and train options. Current decision taken (I believe) to start off with diesels.
- Impact / need for Third line north of Ermelo and timing
- Overvaal tunnel and timing
- New line to serve Majuba – TFR to build
- Power supply upgrade north of Ermelo and timing
- Power supply upgrade south of Ermelo and timing
- Swaziland link and timing.
- FEL & EIA studies and timing.
- Role of new 19E program
- Role of 10E upgrade
- Other?

Outcome

- Key issues / research for next meeting/s
- An integrated “scrubbed” master project plan with interdependencies for coal.

I know diaries are a problem but hope you can make it.

Please advise

Regard

Francis



ANNEXURE FC 29



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 17 May 2013 14:32
To: Nyembezi Magagula Transnet Freight Rail JHB
Cc: Christo van der Merwe Transnet Freight Rail JHB
Subject: Newcastle Coal

Hi Nyembezi
The ratio of coal to steel in the third year and the last four years is out of range.
Regards
Francis

DESCRIPTION	DEST NAME	FWD NAME	AREA DEST NAME	Sum of TONS 2013_2014	Sum of TONS 2014_2015	Sum of TONS 2015_2016	Sum of TONS 2016_2017	Sum of TONS 2017_2018	Sum of TONS 2018_2019	Sum of TONS 2019_2020	Sum of TONS 2020_2021	Sum of TONS 2021_2022	Sum of TONS 2022_2023
IRON ORE	NEWCASTLE SDG.ARCELORMITTAL S.A LTD	SISHEN IRON ORE YARD	NEWCASTLE	1 069	1 324	1 467	1 570	1 619	1 636	1 637	1 654	1 671	1 689
		SISHEN	NEWCASTLE	610	000	026	280	522	756	183	349	695	224
		THABAZIMBI SDG.SISHEN IRON ORE COMPANY	NEWCASTLE	450	450	776	681	737	768	000	956	953	961
IRON ORE Total				248	000	005	150	819	840	000	803	642	644
				2 128 308	2 424	2 778 806	3 094 112	3 189 078	3 206 364	3 207 183	3 236 108	3 265 302	3 294 766
COAL EOHP	NEWCASTLE SDG.ARCELORMITTAL S.A LTD	RICHARDS BAY HARBOUR WAGON LO	NEWCASTLE	572	757	537	698	840	840	962	1 042	1 128	1 222
		LEPHALE SDG.EXXARO COAL PTY LTD	NEWCASTLE	483	000	679	572	000	000	000	116	904	920
		LOUIS TRICHARDT	NEWCASTLE	398	000	620	759	806	806	892	931	973	1 017
COAL EOHP Total				69	82	89	94	000	000	827	802	323	576
				485	000	055	891	200	200	97	200	97	200
				1 125	1 405	1 246	1 552 540	1 743 200	1 743	1 952 027	2 071 118	2 199 427	2 337 696
				616	000	903			200				

Ratio Coal to Iron Ore

53%	58%	45%	50%	55%	54%	61%	64%	67%	71%
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ANNEXURE FC 30



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 17 May 2013 14:11
To: Nyembezi Magagula Transnet Freight Rail JHB
Cc: Christo van der Merwe Transnet Freight Rail JHB; Deirdre Strydom Transnet Freight Rail JHB
Subject: RE:Exarro Leeuwpán

Hi Nyembezi

This is for Exarro Leeuwpán mine.

The jump of 5mt in one year to Newcastle is Optimistic?. The RoM rate is 4.9mtpa and not the 7 mtpa projected. Based on an internet search and 2012 Annual report, there are no plans to increase capacity

Regards

Francis

FWD NAME	AREA FWD NAME	DESCRIPTION	AREA DEST NAME	Sum of TONS 2013_2014	Sum of TONS 2014_2015	Sum of TONS 2015_2016	Sum of TONS 2016_2017	Sum of TONS 2017_2018	Sum of TONS 2018_2019	Sum of TONS 2019_2020	Sum of TONS 2020_2021
DELMAS SDG.EXXARO COAL PTY LTD	WELGEDAG	COAL EOHP	NEWCASTLE	1 463 628	1 716 979	-	-	5 000 000	5 000 000	5 000 000	5 000 000
			VERENIGING	395 404	487 000	771 836	856 121	909 332	909 332	940 499	962 862
			ISANDO	149 269	188 000	199 225	199 312	213 277	213 277	243 338	255 788
			KRUGERSDORP	161 040	186 000	192 000	198 000	205 000	205 000	216 000	220 750
			JOHANNESBURG	64 338	76 000	82 459	87 862	90 000	90 000	90 000	90 000
			RICHARDS BAY COAL	341 284	382 357	382 357	382 357	432 427	432 427	432 427	432 427
		COAL EXPORT FOR STACKS									
DELMAS SDG.EXXARO COAL PTY LTD Total				2 574 963	3 036 336	1 627 877	1 723 652	6 850 037	6 850 037	6 922 264	6 961 827

<http://www.exxaro.com/pdf/icpr/ip/mining/coal.htm>

5.3.2Leeuwpán Mine

Leeuwpans Mine, a mature open pit coal mine in operation since 1992, employs strip-mining methods to access two conformable coal seams. The mine is currently producing from two pits and the LoM Plan depletes Coal Reserves over a period of 30 years, thus classifying the Leeuwpans Mine as a long-life operation. The current LoM Plan includes 145.8Mt of RoM Coal Reserves to be extracted from the Kenbar, Witklip, Moabsvelden and Weltevreden areas.

The OWM block (84.7Mt) falls outside the mine boundary and mainly outside the Mining authorisation boundary. The LoM reserve schedule indicates that Leeuwpans mine plans on mining this block from 2007 to 2031. About 50% of the UI block falls inside the mine boundary but outside the mining authorisation boundary. Leeuwpans' application to the DME for these two blocks was refused. The LoM reserve schedule indicates that Leeuwpans Mine plans to mine this underground block from 2011 to 2035. Based on opinions expressed by Kumba's legal advisers, SRK has included the coal reserves falling within these two blocks. The LoM schedule excludes the 200ktpa RoM coal to be supplied by Stuart Coal (an independent mining company) up to 2012, with 100ktpa of saleable product. There is a concern that Stuart Coal might not have sufficient reserves. The opencast section is scheduled from 2005 to 2035. All the opencast equipment is owned by Kumba and operated and maintained by Archer Mining. The underground operation is scheduled from 2010 to 2035 at a rate of 480ktpa. The current strategy for the underground operation is to use a contractor that will supply his own equipment.

The overall planned stripping ratio is 1.04 : 1 amounting to 4.6Mm³ of overburden. The RoM Coal Reserves are planned to be depleted at a production rate of approximately 4.9Mtpa

From: Francis Callard Transnet Freight Rail JHB
Sent: 17 May 2013 12:51 PM
To: Nyembezi Magagula Transnet Freight Rail JHB
Cc: Christo van der Merwe Transnet Freight Rail JHB
Subject: RE: ArcelorMittal 7 yr MDS

Hi Nyembezi

Any comment perhaps?

Francis

From: Francis Callard Transnet Freight Rail JHB
Sent: 10 May 2013 03:22 PM
To: Nyembezi Magagula Transnet Freight Rail JHB
Cc: Christo van der Merwe Transnet Freight Rail JHB
Subject: ArcelorMittal 7 yr MDS

Hi Nyembezi

Please look at the attached presentations. They indicate ArcelorMittal has a total installed capacity of 8mt per annum.

- Vanderbijlpark plant – 4.5 Mtpa Crude Steel Capacity
- Saldanha Steel – 1.2 Mtpa Crude Steel Capacity

- Newcastle plant – 1.9 Mtpa Crude Steel Capacity
- Vereeniging plant – 0.4 Mtpa Crude Steel Capacity

This may exclude shut down capacity all the presentations agree.

The 7 year MDS indicates that we will ramp up to over 10mt of iron ore to ArcelorMital.

I think the MDS is overstated but would you check please.

Regards

Francis

ANNEXURE FC 31



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 15 August 2013 10:52
To: Deirdre Strydom Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB
Subject: RE: MDS and Capital Risks Workshop

JD, Deirdre, Johan

My conversations this morning refer.

Outcome – a validated MDS to be used as a basis for forward planning

- Traffic projections per route per customer
- wagon requirements over the next 4-7 years . **Required for the wagon fleet plan**
- locomotive requirements

Validated means Tested and grounded in data

- including customer / supplier capability to deliver
- Timing of customer investments to deliver the volumes
- Loading and offloading requirements
- Special rolling stock – wagons – bottom discharge etc.

Infrastructure requirements

- Ability of corridors to handle the combined flows (e.g Maputo and Waterberg)
- Realistic project plans / timing that will increase the infrastructure capacity where it is limitation.
 - If infra capacity is a limitation then the volumes are adjusted till the infra limitation resolved

Integrity

- MDS to be defensible / fact based
- Schedule of risks and their management
- What are the key assumptions
- Process to keep the MDS updated (yearly , half yearly, quarterly etc)

Monitoring

- How do we perform by flow and customer against the current and future MDS.

From: Pragasen Pillay Transnet Freight Rail JHB
Sent: 15 August 2013 09:56 AM
To: Deirdre Strydom Transnet Freight Rail JHB
Subject: RE: MDS and Capital Risks Workshop

We have but can you add what you would like to see.

Pragasen Pillay
 General Manager ,Logistic Integration
 Transnet Freight Rail

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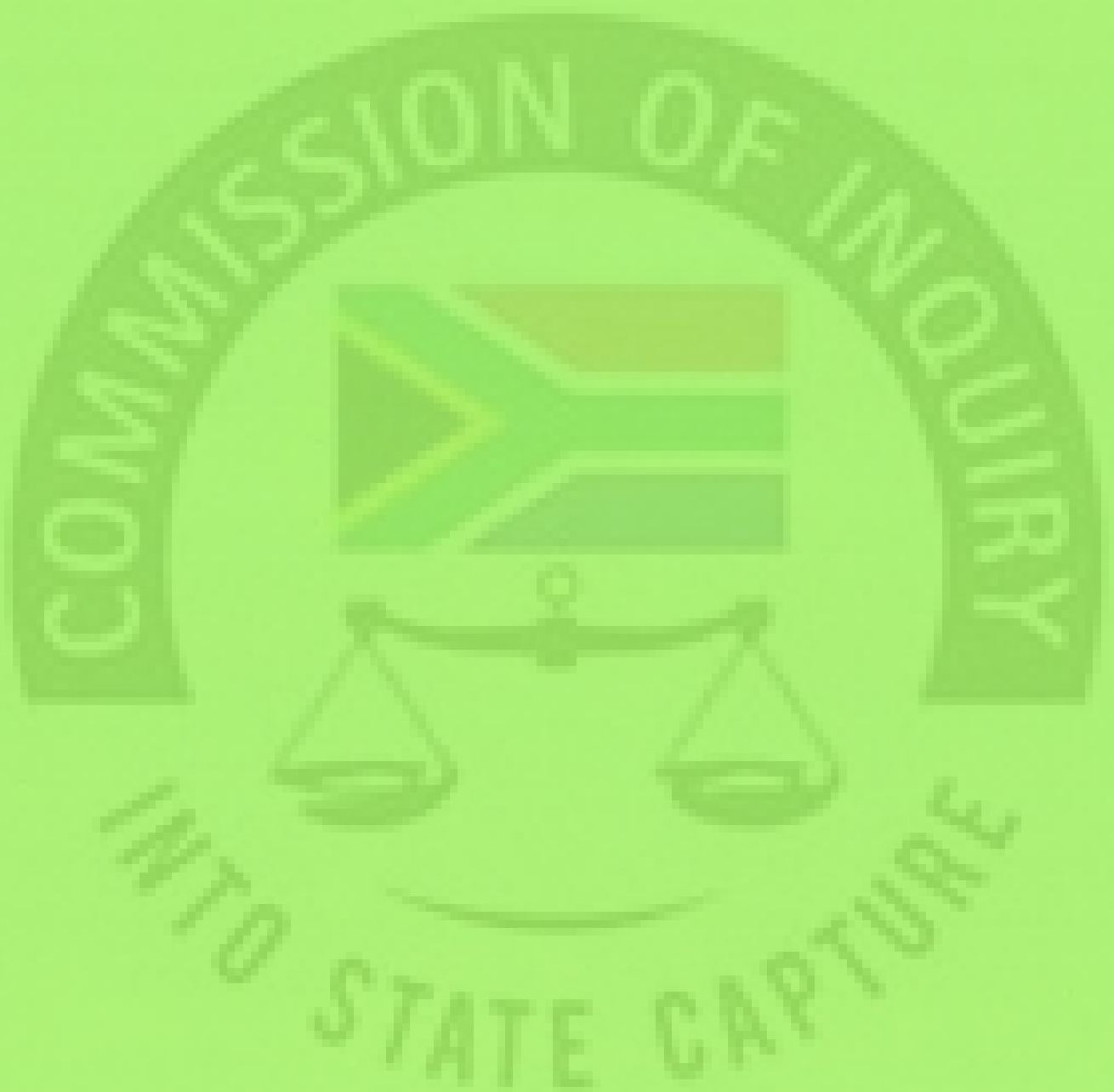
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 (Device Independent Bitmap) Pragasen.Pillay@transnet.net
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ANNEXURE FC 32



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 29 August 2013 10:52
To: Pragasen Pillay Transnet Freight Rail JHB; Nyembezi Magagula Transnet Freight Rail JHB; Christo van der Merwe Transnet Freight Rail JHB; Stevens Tjabadi Transnet Freight Rail JHB; Gene Beilings Transnet Freight Rail JHB
Cc: Sandra Gertenbach Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: MDS Validation Process - Unconstrained Demand to a Traffic File
Importance: High

Dear Colleagues

Thanks for the meeting Wednesday 28th and some very brief notes. Please amend / crit as necessary.

I am copying Sandra, Johan and Natasia as the process will affect them.

1. The meeting focussed on General Freight. Coal and Iron Ore export are dealt with separately
2. Nyembezi produces the Unconstrained Demand file
3. The business units have a concern that the unconstrained demand finds its way into the budget (example of the coal session)
4. Historically Logistics Integration (LI) (Stevens and others) constrained the file with
 - a. Wagons
 - b. Locomotives
5. There is a shortcoming / gap in that the current MDS (170 mt TFR) was not fully constrained according to:
 - a. Network capability
 - b. Supplier capability
 - c. Loading capability
 - d. Off loading capability
 - e. Receiver consumption capability
6. LI constrained the current MDS where they have historical (experiential) knowledge of item 5 but it was not a formal process nor was it complete.
7. **Meeting agreed that the a joint process is necessary to properly constrain the Unconstrained Demand file.**
8. **The current MDS must be protected / enhanced wherever possible**
9. Christo to document the process which at a high level includes:
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 - iii. Service Design
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 - a. Impact of additional stretch determined by / with LI, TFR Commercial and BU
11. Service design to validate doability with a train plan
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13. For final constrained file at a customer and flow level

- a. Drop in volumes – reasons to be given (declining market, stop in exports e.g East London Grain)
 - b. Static or GDP growth volumes – reasons - factory capacity e.g Ngodwana paper mill, population demand e.g fuel consumption)
 - c. Hockey stick growth – reasons (new market and plan to achieve and, infrastructure and rolling stock requirements and timetable, customer expansion plans)
14. Resources / Maintenance for the year are planned against the Constrained Demand File = Traffic File

Hope this correctly reflects the meeting

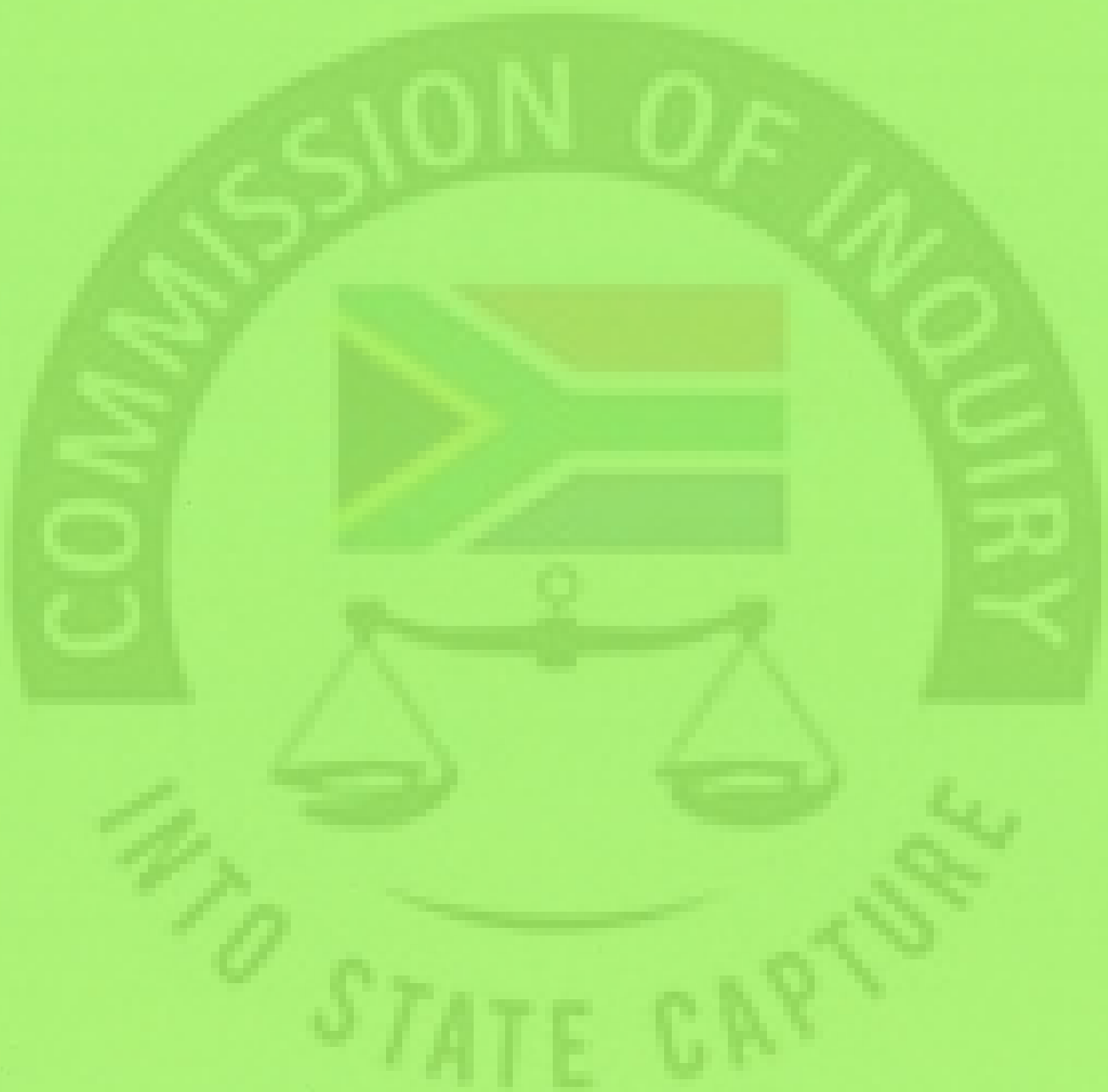
Regards

Francis

Francis Callard
Capital Planning and Governance
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Mobile 27 83 283 1593
E-mail francis.callard@transnet.net
Skype black1cat2



ANNEXURE FC 33



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 02 September 2013 09:00
To: Sandra Gertenbach Transnet Freight Rail JHB
Subject: RE: MDS Validation Process - Unconstrained Demand to a Traffic File

Sure – but it is the critical step as without it we cannot move or if we get it wrong, we are in stook and take the wrong decisions/allocate resources incorrectly.
 As JD often says – LI holds the key to the budget.

From: Sandra Gertenbach Transnet Freight Rail JHB
Sent: 02 September 2013 08:51 AM
To: Francis Callard Transnet Freight Rail JHB
Subject: RE: MDS Validation Process - Unconstrained Demand to a Traffic File

Please bear in mind that developing the Unconstraining traffic file is but the first step in the planning process.....

From: Francis Callard Transnet Freight Rail JHB
Sent: 02 September 2013 08:39 AM
To: Pragasen Pillay Transnet Freight Rail JHB; Nyembezi Magagula Transnet Freight Rail JHB; Christo van der Merwe Transnet Freight Rail JHB; Stevens Tjabadi Transnet Freight Rail JHB; Gene Beilings Transnet Freight Rail JHB; Sandra Gertenbach Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: FW: MDS Validation Process - Unconstrained Demand to a Traffic File

Colleagues
 Please see input from Christo.
 Regards
 Francis

From: Christo van der Merwe Transnet Freight Rail JHB
Sent: 02 September 2013 07:17 AM
To: Francis Callard Transnet Freight Rail JHB
Subject: RE: MDS Validation Process - Unconstrained Demand to a Traffic File

Hi Francis,
 Minor input in blue text.
 Thanks
 Christo

From: Francis Callard Transnet Freight Rail JHB
Sent: 29 August 2013 10:52 AM
To: Pragasen Pillay Transnet Freight Rail JHB; Nyembezi Magagula Transnet Freight Rail JHB; Christo van der Merwe Transnet Freight Rail JHB; Stevens Tjabadi Transnet Freight Rail JHB; Gene Beilings Transnet Freight Rail JHB
Cc: Sandra Gertenbach Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
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 - c. Crew
 - d. Network
5. There is a shortcoming / gap in that the current MDS (170 mt TFR) needs further refinement in terms of constraining according to:
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 - c. Loading capability (Logistics Integrator with Sales and Customer Care in BUs)
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Hope this correctly reflects the meeting

Regards

Francis

Francis Callard
 Capital Planning and Governance
 Office 27 11 544 9634

Mobile 27 83 283 1593
 E-mail francis.callard@transnet.net
 Skype black1cat2



ANNEXURE FC 34



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 04 September 2013 11:40
To: Nelisa Khumalo Transnet Freight Rail JHB
Cc: Christo van der Merwe Transnet Freight Rail JHB; Nyembezi Magagula Transnet Freight Rail JHB
Subject: FW: MDS Validation Process - Unconstrained Demand to a Traffic File
Attachments: NOTES ON A MEETING TO PRODUCE A VALIDATED MDS.docx; 20130830 Wagon TFRIC v2 memo .docx

Hi Nelisa

I am busy with the wagon business for 2013/14 and 14/15-16/17.

To produce a credible wagon business case requires a credible and validated MDS.

The current MDS has a number of shortcomings where it reflects "unconstrained demand" as "budget" without going through a proper validation process.

To this end we have had a series of meetings culminating in the attached meeting notes. (JD, Nybezi, Christo, Stevens and Francis)

I will be talking on the Wagon Business Case Status at TFRIC tomorrow and the MDS is a critical component of the Wagon Business Case.

Please see the attached notes and would like to strategize with you before the TFRIC tomorrow.

Regards

Francis

Francis Callard
Capital Planning and Governance
 Office 27 11 544 9634
 Mobile 27 83 283 1593
 E-mail francis.callard@transnet.net
 Skype black1cat2

NOTES ON A MEETING TO PRODUCE A VALIDATED MDS

Present: Francis Callard, Christo van der Merwe, Nyembezi Magagula, Pragasen Pillay, Stevens Tjabadi

Details: Wednesday 28 August 2013 , JD's Office.

Notes:

1. The meeting focussed on General Freight. Coal and Iron Ore export are dealt with separately
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- a. Drop in volumes – reasons to be given (declining market, stop in exports e.g East London Grain)
 - b. Static or GDP growth volumes – reasons - factory capacity e.g Ngodwana paper mill, population demand e.g fuel consumption)
 - c. Hockey stick growth – reasons (new market and plan to achieve and, infrastructure and rolling stock requirements and timetable, customer expansion plans)
14. Resources / Maintenance for the year are planned against the Constrained Demand File = Traffic File
-

Complied:

F Callard and C van der Merwe



ANNEXURE FC 35



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 10 September 2013 11:36
To: Nyembezi Magagula Transnet Freight Rail JHB; Stevens Tjabadi Transnet Freight Rail JHB; Eric Peete Transnet Freight Rail JHB; Reginald Ntshingila Transnet Freight Rail JHB; Sandra Gertenbach Transnet Freight Rail JHB; Deirdre Strydom Transnet Freight Rail JHB; Lungi Maminza Transnet Freight Rail JHB
Cc: Ali Motala Transnet Freight Rail JHB; Nelisa Khumalo Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Christo van der Merwe Transnet Freight Rail JHB
Subject: RE: mds_2014.xlsx

Dear Colleagues

I have just had a quick look at the file and some questions. Perhaps they will come out in further moderation.

- The jump to 119 mt next year for GF is huge!!!
- Cannot find Coal – Grootvlei
- Cannot find Limestone – Kusile
- Correct Manganese Export - PE – get from Deirdre.
- ABL - Coal Export Durban (?) grows to 12mt – This is Botswana Coal. Does Durban have capacity
- RBCT Coal Exports – 97.5mt - ??
- Majuba drops to 7mt in 23/24 – typo?
- Below Fwd stations not reflected in 23/24

<u>MONTCLAIR SDG.MONDI PAPER CO.</u>	COAL EOHP	COAL
<u>TONGAAT SDG.HULETT GROUP LIMITED</u>	COAL EOHP	COAL
<u>GLEDHOW SDG.USHUKELA</u>	COAL EOHP	COAL
<u>CATO RIDGE SDG.FLAMITE PTY LTD</u>	COAL EOHP	COAL
<u>GEDULD SDG.SAPPI FINE PAPERS</u>	COAL EOHP	COAL
<u>ISANDO SDG.KELVIN POWER PTY LTD</u>	COAL EOHP	COAL
<u>MANDINI SDG.SAPPI KRAFT</u>	COAL EOHP	COAL

Stevens tells me got a call not to use this file. Please confirm. Should any further analysis be done on this file? Can it assist with areas to further review?

Please can we add the previous year (actuals) and the present year (budget) and performance. This will help assess the validity / plans required in support of the growth

Best

Francis

From: Nyembezi Magagula Transnet Freight Rail JHB

Sent: 04 September 2013 06:31 PM

To: Stevens Tjabadi Transnet Freight Rail JHB; Eric Peete Transnet Freight Rail JHB; Reginald Ntshingila Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Sandra Gertenbach Transnet Freight Rail JHB; Deirdre Strydom Transnet Freight Rail JHB; Lungi Maminza Transnet Freight Rail JHB

Cc: Ali Motala Transnet Freight Rail JHB; Nelisa Khumalo Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB

Rail JHB; Christo van der Merwe Transnet Freight Rail JHB
Subject: mds_2014.xlsx

Colleagues

Herewith the new customer demand as requested. The file looks better bar significant negative gaps in Iron ore exports, Eskom coal in containers. We have engaged relevant BUs on these and should have an updated file by Friday.

I believe this is enough to kick-start the resourcing process as agreed at Esselenpark.

Kindest regards

Nyembezi



ANNEXURE FC 36



10 Recommendation: Proposed Resolution

The Transnet Freight Rail Investment Committee RESOLVED that it approves the following:


- To procure 1064 locomotives for General Freight as set out in Business Case version 0, dated 7 March 2012 in its entirety and without exception;
- For the estimated total cost of R38 146.3 m
- Which is to commence on 1 July 2011 and be completed by 31 March 2018

(Estimated dates which will not be extended by more than one year);


Project Authorisation Signatures

Transnet Freight Rail

Submission supported:


 Surendra Chetty
 Acting General Manager, Capital Projects
 Date 7/3/2012

Submission supported:


 Ravi Nair
 Acting Chief Operating Officer
 Date 07/03/2012

Submission recommended:


 Siyabonga Gama
 Chief Executive: Freight Rail
 Date

Transnet Group

Submission recommended:


 Anoj Singh
 Chief Financial Officer
 Date

Submission recommended:


 Brian Molefe
 Group Chief Executive
 Date

(Operating Division) Transnet Freight Rail	(Department) Capital Program	
(Author) F Callard	(Date:) 15 02 2012	Page 33 of 45

ANNEXURE FC 37



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 19 March 2012 14:26
To: Rita Roper Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB; Mlamuli Buthelezi Transnet Freight Rail JHB
Cc: Pragasen Pillay Transnet Freight Rail JHB; Vilvalingum Nair Transnet Freight Rail JHB; Thuli Thanjekwayo Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Solome Padayachee Transnet Freight Rail JHB; Pieter van Niekerk Transnet Freight Rail JHB
Subject: Locomotive Business Case. V4
Attachments: Loco Business Case V4 1064 15Mar12.doc; Loco Business Case V4 1064 15Mar12.pdf

Tracking:

Recipient	Delivery	Read
Rita Roper Rail JHB	Transnet Freight Failed: 19/03/2012 14:26	
Nomfuyo Galeni Freight Rail JHB	Transnet	
Mlamuli Buthelezi Freight Rail JHB	Transnet	
Pragasen Pillay Rail JHB	Transnet Freight	
Vilvalingum Nair Freight Rail JHB	Transnet	
Thuli Thanjekwayo Freight Rail JHB	Transnet	Read: 19/03/2012 14:30
Johan Bouwer Freight Rail JHB	Transnet	
Natasia McMahon Freight Rail JHB	Transnet	Read: 19/03/2012 14:45
Solome Padayachee Transnet Freight Rail JHB		Read: 19/03/2012 14:26
Pieter van Niekerk Freight Rail JHB	Transnet	
Millicent Masanabo Freight Rail JHB	Transnet	Read: 19/03/2012 14:28

Dear All

The CE made minor additions to version 3 of the business case which have been incorporated into version 4. He is presenting this version to CAPIC this afternoon and will sign the V4 copies at CAPIC.

Key points are

1. the commitment to an updated locomotive fleet plan and
2. updated wagon plan (for tabling at Exco)
3. Draft letter to the shareholder (done – waiting on CE's comments))
4. Draft letter to the Board

The updated fleet plan is attached on word and pdf format.

Natasia / Solome

Please forward the attached as the final (as tabled at CAPIC) to Niresh.

Thuli

This is the same as the copy I sent you earlier.

Thanks and regards

Francis



ANNEXURE FC 38



fcallard@telkomsa.net

From: Natasia McMahon Transnet Freight Rail JHB <Natasia.McMahon@transnet.net>
Sent: 05 June 2012 15:32
To: Nomfuyo Galeni Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB; Caesar Mtetwa Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB
Subject: Capic Minutes Excerpt of 1064 Locomotives

All,

Find below and excerpt the minutes from the Capic meeting held on 21 May 2012.
 Note in particular the external review requirement of the business cases as well as the detailed procurement process requirement.

Procurement of 1064 New Locomotives (ETC R38 146 million):

- (i) Collate the comments on the business case**
- (ii) Decide on an external party to review the business case and provide a risk assessment**

(i) The Committee noted that the comments were collated and provided to the Acting Chairman for review.

The Acting Chairman stated that:

- (i) The majority of the Committee did not comment on the business case;
- (ii) It was decided that Transnet will run a parallel process on the 1064 locomotives;
- (iii) Transnet needs to augment the business case from a Group perspective to ensure that it is addressing all the risks associated with the business case;
- (iv) The Board was requested to provide approval for Transnet to proceed with the procurement event and issue the RFP into the mark Management Act (PFMA) and Board approval. The Department of Public Enterprises (DPE) and National Treasury will be engaged in the
- (v) The business case will then be tabled for approval at the Board in October/November 2012 together with the approval of the procurer the short list of bidders;
- (vi) It is intended that the process of negotiating the successful tenders will be conducted in November/December 2012; the award/signing and payments in February 2013;
- (vii) A similar process will be followed with other major projects;
- (viii) Each Board Acquisitions and Disposals Committee (BADC) meeting will be provided with an update as it relates to the procur enhancement of the business case and PFMA approval with DPE; and
- (ix) In order to ensure that the financial risks of the transaction have been taken into consideration BADC have seconded Mr Israel Skosan a special member.

(ii) The Acting Chairman stated that Transnet has conducted the risk assessment and is engaging a multi-disciplinary team of transactions business case.

Kind regards,

Natasia McMahon
 Senior Manager
 Capital Portfolio Management (Finance)
 011 584 0568
 083 447 8948

ANNEXURE FC 39



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 02 July 2012 16:47
To: Siyabonga Gama Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Mlamuli Buthelezi Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB; Nelisa Khumalo Transnet Freight Rail JHB; Gene Beilings Transnet Freight Rail JHB; Pieter Bredenhand Transnet Freight Rail PTA
Subject: MDS Wagon business Plan
Attachments: Wagon Business Case V4 prelim InvestForum 19bn 2July12.docx

Tracking:

Recipient	Read
Siyabonga Gama Transnet Freight Rail JHB	
Rita Roper Transnet Freight Rail JHB	
Mlamuli Buthelezi Transnet Freight Rail JHB	
Pragasen Pillay Transnet Freight Rail JHB	
Johan Bouwer Transnet Freight Rail JHB	
Nomfuyo Galeni Transnet Freight Rail JHB	Read: 03/07/2012 07:53
Nelisa Khumalo Transnet Freight Rail JHB	
Gene Beilings Transnet Freight Rail JHB	
Pieter Bredenhand Transnet Freight Rail PTA	Read: 03/07/2012 08:46

Dear All

Further to Thursday's TFRIC and the actions required on the MDS wagon business case.

Luis has agreed that it can be submitted by 0900 Tuesday. (tomorrow)

The updated copy V4 is attached with changes / additions highlighted in yellow.

Still to be included are:

- Operational philosophy and wagon efficiency (write up tonight)
- Matching of current wagon numbers from fleet plan to requirements in a full waterfall model

Following has been included:

- TRE pricing
- Quality control / assurance
- Road Rail strategy
- PSP's for new wagons to mitigate demand
- Revised risk assessment
- The wagon fleet plan has been updated to correct volumes (90.3)

A full correlation of new wagons to business units is not available and will take some time to prepare.

Please review the highlighted sections as they do deal with strategy and the way forward.

Thank you in advance

Francis Callard

Office 27 11 544 9634
Mobile 27 83 283 1593
E-mail francis.callard@transnet.net



ANNEXURE FC 40



fcallard@telkomsa.net

From: Johan Bouwer Transnet Freight Rail JHB
Sent: 03 April 2013 22:40
To: Mohammed Mahomedy Transnet Corporate JHB
Cc: Nomfuyo Galeni Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB
Subject: 1064 business case progress concerns
Attachments: 130403 TRX 1064 LBCasev1.docx

Mohammed

As discussed late afternoon I am concerned about the progress on the 1064 business case after the McKinsey session today.

The team presented the TFR contingent with a cut and paste from the Transnet corporate plan relating to the Transnet "belief on volumes" and Transnet's Ambitious growth plan beyond the South African economy growth predictions. I attach the document as reference.

None of the assumptions used in the original business case tables last year, with the nut and bolts around the number of locomotives required, the pricing of a new locomotive as well as the financial model to substantiate and motivate the locomotive requirement were presented. The TFR team will see it tomorrow to sign off for circulation to Transnet Capic / Exco members on Friday.

I am concerned that the McKinsey team is not focussing on their mandate to validate assumptions in the original business case and enhance the case, specifically focusing on the queries raised by TFRIC, CAPIC and DPE.

The McKinsey team is focussing on two specific questions relating to the MDS volumes, as well as the TFR road to rail strategy. These 2 questions are not the drivers of the need for locomotives and were agreed to with the Board and DPE in the Transnet Corporate plan interactions, and should not be the backbone explaining the need for more locomotives.

The McKinsey team are refusing to take direction on the case and seems to be a collating of data team. The TFR team will gladly be the conduit, but cannot take responsibility for a case, if inputs are ignored and no case is presented for review.

Your intervention regarding the composition of the team and the Friday deadline is required.

Fabio the team lead as presented at the Kick-off is not on site, and David Potter the Rail expert is not part of the team questioning Assumptions used in the original business case.

The business case review by TFR can only commence on presentation of a case, and a R 38billion case requires more than an all-nighter on a Thursday to validate and check.

I have received a SMS from Vikas regarding the awkward meeting earlier today, with a request to call in the morning to "clear communication channels". I thus assume the McKinsey team got the message, but I am not sure that they have thrown their vast rail to this project as yet. I have seen them work wonders overnight in past projects and hope that they do it again. I do not enjoy living on hope only.

Regards

Johan

ANNEXURE FC 41



fcallard@telkomsa.net

To: Mohammed Mahomedy Transnet Corporate JHB; Johan Bouwer Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: RE: 1064 business case progress concerns

Hi Mohammed

I am also very concerned.

Mc Kinsey chose to restructure and rewrite the business case and, as Johan has indicated, to date it has been a restatement of what already exists.

My interaction to date has largely been informing them about locomotives, railway operations and railway operating parameters including down to the difference between GTK and NTK and what is a Class 1 railroad.

So far the Mc Kinsey team has not convinced me that they have interpreted the overall context for the business case nor, do I believe, shown that they have contextualised the issues for documenting in the business case. In particular, how to show that the questions of DPE and the Board have been answered. They have not shown (to me) that they are familiar with locomotives or the supply and delivery arguments that would inform CSDP procurement and the strategies for local or imported supply. A whole day session with David Potter appears not have been contextualised.

As late as yesterday afternoon the TFR team were again stressing that the questions of DPE and Board need to be addressed in a manner that would give them (DPE and the Board) both visibility and comfort. The draft material Mc Kinsey tabled did not demonstrate this structure, format or content and the "proof reading" of the material presented was abandoned.

The TFR team yesterday asked that they, Mc Kinsey, write up and present the executive summary first so that there can be alignment on the thrust and arguments of the business case.

I hope this is the case in this afternoon's session.

Best regards

Francis

-----Original Message-----

From: Mohammed Mahomedy Transnet Corporate JHB

Sent: 04 April 2013 06:38 AM

To: Johan Bouwer Transnet Freight Rail JHB

Cc: Nomfuyo Galeni Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB

Subject: Re: 1064 business case progress concerns

Hi Johan

Post our telecon, we have had lengthy discussions with the Mc Kinsey executive team regarding the concerns from TFR.

They have agreed to have a significantly improved business case available for the team's review by this afternoon. We will re-assess the status late today, post their draft submission.

In addition, I will be scheduling some time during the day, dependent on the role players diaries and will keep you posted.

Thank you for raising the concerns and assuring you of our assistance in resolution of all matters related.

Kind regards

Mohammed Mahomedy
Capital Integration
Transnet SOC Limited
Mobile 083 357 2493
Mohammed.mahomedy@transnet.net

On 03 Apr 2013, at 10:39 PM, "Johan Bouwer" <Johan.Bouwer@transnet.net> wrote:

> This message cannot be displayed because of the way it is formatted. Ask the sender to send it again using a different format or email program. text/plain
> <130403 TRX 1064 LBCasev1.docx>



ANNEXURE FC 42



fcallard@telkomsa.net

From: Pragasen Pillay Transnet Freight Rail JHB
Sent: 12 April 2013 14:00
To: Anoj Singh Corporate JHB; 'naseem_saloojee@mckinsey.com'
Cc: Siyabonga Gama Transnet Freight Rail JHB; 'nischal_bajinath@mckinsey.com'; 'alinafe_thupa@mckinsey.com'; Johan Bouwer Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: RE: Price/forex estimates

Hi Annoj we have already submitted all the information below Alinafe on Wednesday.

Naseem please advise if there is anything that is missing.



Pragasen Pillay
 General Manager ,Logistic Integration
 Transnet Freight Rail

☎ 011 544 9352

☎ 083 400 3917

☎ 086 236 1543

✉ Pragasen.Pillay@transnet.net

www.transnet.net

From: Anoj Singh Corporate JHB
Sent: 12 April 2013 01:47 PM
To: Pragasen Pillay Transnet Freight Rail JHB; 'naseem_saloojee@mckinsey.com'
Cc: Siyabonga Gama Transnet Freight Rail JHB; 'nischal_bajinath@mckinsey.com'; 'alinafe_thupa@mckinsey.com'; Johan Bouwer Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: Re: Price/forex estimates

Hi JD

per my telephone conversation with Siya today, we have agreed to revise the business plan to reflect a 1064 locomotive requirement by 2019 instead of the current 2020 timeline.

In order to turn the business case around for the Steerco and Board I will need you to help the working team by providing by close of business Sunday a number of analysis revisions that I understand sit with you.

the team will require the following:

- TFR fleet plan to reflect a need for 1064 locomotives by 2019 (this must exclude locomotives already on order and operational efficiencies; will also require the justification of an accelerated run out plan and cost benefit analysis)
- Supporting documents for the interdependencies
- Wagon build
- Deployment plan

- HR plan
- Fleet run out plan

Please liaise directly with Thembi and the McKinsey team to ensure this information is delivered.

We will schedule a meeting on Monday to discuss the same.

Regards,
Anoj

From: Pragasen Pillay Transnet Freight Rail JHB
Sent: Thursday, April 11, 2013 04:03 PM
To: naseem_saloojee@mckinsey.com <naseem_saloojee@mckinsey.com>
Cc: Siyabonga Gama Transnet Freight Rail JHB; Anoj Singh Corporate JHB; nischal_bajinath@mckinsey.com <nischal_bajinath@mckinsey.com>; alinafe_thupa@mckinsey.com <alinafe_thupa@mckinsey.com>; alinafe_thupa@mckinsey.com <alinafe_thupa@mckinsey.com>; Johan Bouwer Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Subject: RE: Price/forex estimates

Naseem please note that we have had a discussion with Mr. Gama the CE of TFR the following was the outcome:

1. TFR cannot accept that the budgeted amount for the 1064 be escalated due to the delivery time shifting 2 years beyond the MDS timeline. Noting the effect on time value of money by the extended proposed delivery.
2. The 1064 is purchased to support and deliver on the agreed approved MDS volumes. The question is what is the value of receiving 152 locomotives beyond 2018/2019 to the MDS?
3. This assessment by Mckenzie was to assist in speeding up the process of approval so that the delivery supports the volume ramp up. In this case it seems not to do this.

In summary TFR cannot accept the current proposed delivery and requires that this be brought back to the required timelines.



Pragasen Pillay
General Manager ,Logistic Integration
Transnet Freight Rail

☎ 011 544 9352 ☎ 083 400 3917

☎ 086 236 1543 ✉ Pragasen.Pillay@transnet.net

www.transnet.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 10 April 2013 01:14 PM
To: naseem_saloojee@mckinsey.com; Pragasen Pillay Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB
Cc: nischal_bajinath@mckinsey.com; alinafe_thupa@mckinsey.com; alinafe_thupa@mckinsey.com
Subject: RE: Price/forex estimates

Hi Naseem

I get a slightly lower price for diesels based on your figures . Please see attached.

Have not done electrics yet.

Is there a misaligned assumption

Regards

Francis

From: naseem_saloojee@mckinsey.com [mailto:naseem_saloojee@mckinsey.com]

Sent: 10 April 2013 12:23 PM

To: Pragasen Pillay Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB

Cc: nischal_bajinath@mckinsey.com; alinafe_thupa@mckinsey.com

Subject: Fw: Price/forex estimates

JD, Francis,

See the current price estimates and projected transaction cost below. We currently project the overall cost of the transaction to be ZAR 39bn.

Our USD costs of \$2.6 million per diesel and \$3.5 million per electric were derived working with David Potter. We have escalated these prices based on projected US inflation and converted back to ZAR based on the forward rate from the TransnetTreasury. Let us know if you have any feedback here.

Naseem Saloojee
McKinsey & Company
+27 83 659 1221 (South Africa)
+1 647 622 9173 (Canada)

----- Forwarded by Naseem Saloojee/TOR/NorthAmerica/MCKINSEY on 10/04/2013 12:19 PM -----

From: Nischal Bajinath/JOH/Africa/MCKINSEY
To: Naseem Saloojee/TOR/NorthAmerica/MCKINSEY@MCKINSEY
Cc: Alinafe Thupa/JOH/Africa/MCKINSEY@MCKINSEY
Date: 10/04/2013 08:26 AM
Subject: Re: Price/forex estimates

Hi Naseem,

Here is the price/forex estimates used. 13/14 prices sourced from Expert interviews

Fin Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Diesels									
ZAR locomotive price		25.2	27.0	29.1	31.2	33.4	35.8	38.4	41.1
USD locomotive price		2.6	2.7	2.7	2.8	2.8	2.9	3.0	3.0
Electrics									
ZAR locomotive price		33.9	36.4	39.1	42.0	45.0	48.3	51.7	55.3
USD locomotive price		3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.1
FX Futures (ZAR/USD)		9.7	10.2	10.7	11.2	11.7	12.3	12.9	13.5
US Inflation			2.2%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%

Our base procurement schedule is as follows (Number of locos operational):

	13/2014	14/2015	15/2016	16
Into Service Procurement schedule	0	73	181	
Diesels	0	73	125	
Dual voltage	0	0	56	

Cash flow schedule is as follows:

Loco capital costs

	13/2014	14/2015	15/2016	16
Diesel Cashflows (ZAR millions)	250	2 582	3 432	
Electric Cashflows (ZAR millions)	300	0	2 742	

Loco capital cash flow schedule assumes a contract signing fee of ZAR250million and ZAR300million for Diesels and Electrics respectively, offset against the first payment batch. The payment terms are assumed to be split 90:10, with 90% payment on delivery and 10% payment on operation.

Hedging costs

	13/2014	14/2015	15/2016	16
Diesel hedging costs (ZAR millions)	20	207	275	
Electric hedging costs (ZAR millions)	24	0	219	

Hedging costs are assumed to be 8% of the loco cashflows above.

Thanks,

Nischal Bajinath

McKinsey & Company | Sandown Mews, East, 88 Stella Street | 2196 Sandown | Republic of South Africa
Direct +27 11 506-8026 | Fax +27 11 506-9026 | Mobile +27 82 329-8026 | Internal 3278026
nischal_bajinath@mckinsey.com

▼ Naseem Saloojee---2013/04/09 09:51:16 PM---Hey Nischal, In the AM, can you please put the price/forex assumptions from the model into an email?

From: Naseem Saloojee/TOR/NorthAmerica/MCKINSEY
To: nischal_bajinath@mckinsey.com,
Date: 2013/04/09 09:51 PM
Subject: Price/forex estimates

Hey Nischal,

In the AM, can you please put the price/forex assumptions from the model into an email? Basically need the price for diesel and electric, the US inflation rate estimate we're using, the fwd exchange rate (from TFR treasury), the delivery schedule (base case), and our ultimate final price number.

I'd like to send these to JD and to the Transnet Treasury office to weigh in on.

Naseem Saloojee
McKinsey & Company
+27 83 659 1221 (South Africa)
+1 647 622 9173 (Canada)

ANNEXURE FC 43



fcallard@telkomsa.net

From: Pragasen Pillay Transnet Freight Rail JHB
Sent: 13 April 2013 18:31
To: Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB
Subject: Re: 1064 consultants

Hi guys this is not the worst of it. Francis was pissed off literally yesterday.

Sorry Francis cannot repeat your anger on mail.

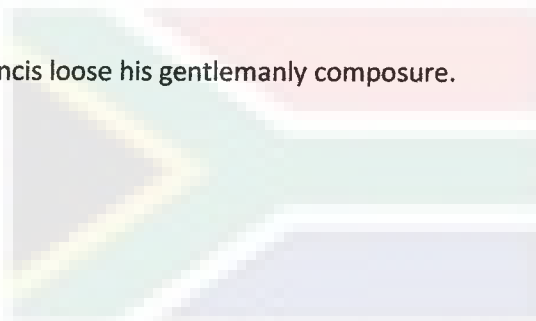
----- Original Message -----

From: Johan Bouwer Transnet Freight Rail JHB
Sent: Saturday, April 13, 2013 09:28 AM
To: Natasia McMahon Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Pragasen Pillay Transnet Freight Rail JHB
Subject: 1064 consultants

Specially for Francis

Yesterday was the first time I saw Francis loose his gentlemanly composure.

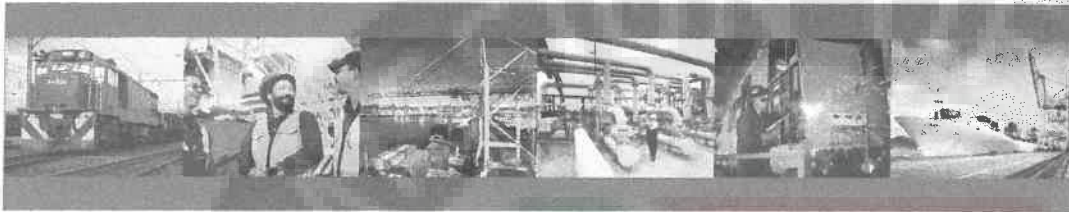
This picture tells the story



ANNEXURE FC 44



Procurement of 1064 Locomotives for the General Freight Business



Date of Submission to <OD IC>	16 th April, 2013
Addressed To	Board Acquisition and Disposal Committee
Title of Submission	Procurement of 1064 Locomotives for the General Freight Business
Date of Review	23 rd April, 2013

A. PURPOSE

This business case provides the rationale to invest in the profitable General Freight Business (GFB) by undertaking the procurement of 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to *accelerate locomotive deployment* to enable delivery against Transnet's Market Demand Strategy and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:

- Create 28,000 new direct and indirect jobs and R50 billion in economic impact through local supplier development. These are secondary objectives. Primary objective is to enable TFR to deliver 170 mt on MDS by 2018/19.
- Lower the cost of doing business in South Africa by enabling operational efficiencies which will increase customer satisfaction and facilitate a shift from road to rail.
- Create value for Transnet through a positive NPV (R0.3 billion at a hurdle rate of 18.56% and R27.9 billion at a WACC of 12.56%), top-line growth, enhanced ROA and an improved environmental footprint.

A robust procurement strategy and appropriate governance processes have been designed and instituted to ensure transparency, fairness and value maximisation for Transnet. A funding plan and forex management strategy are detailed in the business case.

The risks, that are inherent in a procurement event of this nature, have been identified and mitigation strategies are in place. Accordingly, it is recommended that the 1064 Locomotives business case be approved.

ANNEXURE FC 45



fcallard@telkomsa.net

From: Pragasen Pillay Transnet Freight Rail JHB
Sent: 16 April 2013 21:44
To: Thembi Lekganyane Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; naseem_saloojee@mckinsey.com
Cc: Siyabonga Gama Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Anoj Singh Corporate JHB; Niresh Budhai Transnet Corporate JHB
Subject: 20130416 1200 - 1064 Locomotives Business Case_V2 TFR Team
Attachments: 20130416 1200 - 1064 Locomotives Business Case_V2 TFR Team.docx

Please receive marked up document with relevant changes and questions.

The following is to be considered and validated:

1. Consistency in the use of data. Specifically delivery schedules differing between the locomotive fleet plan and financial analysis.
2. There is inconsistency in the budget for the locomotives and TFR suggests that we keep to the R38.6b. any shortfall as the budget varies from R36.7 to R37b
3. Some of the annexures have been deleted as it is annexures for reference purposes only and is not required in the business case. It was documents provided for validation purposes only and not for the business case.
4. There is inconsistencies in revenue generation calculation calculations across the document from R53 to R76b. no understanding of what is the reference document.
5. There is a R50b revenue to South Africa which is in the executive summary. How is this quantified?

Please contact us for any queries.

ANNEXURE FC 46



fcallard@telkomsa.net

From: Francis Callard Transnet Freight Rail JHB
Sent: 17 April 2013 18:52
To: Anoj Singh Corporate JHB; Victor Matavel Transnet Freight Rail JHB; Thembi Lekganyane Transnet Freight Rail JHB; Niresh Budhai Transnet Corporate JHB
Cc: Brian Molefe Transnet Corp; Siyabonga Gama Transnet Freight Rail JHB; 'fabio_pedrazzi@mckinsey.com'; 'naseem_saloojee@mckinsey.com'; 'nischal_baijnath@mckinsey.com'; 'Vikas_Sagar@mckinsey.com'; 'alinafe_thupa@mckinsey.com'
Subject: 1064 Loco Business Case Mail
Attachments: 20130417 1830 - 1064 Locomotives Business Casev1.pdf

Dear All

Please find attached 1064 Loco business case attached in SteerCo Version.

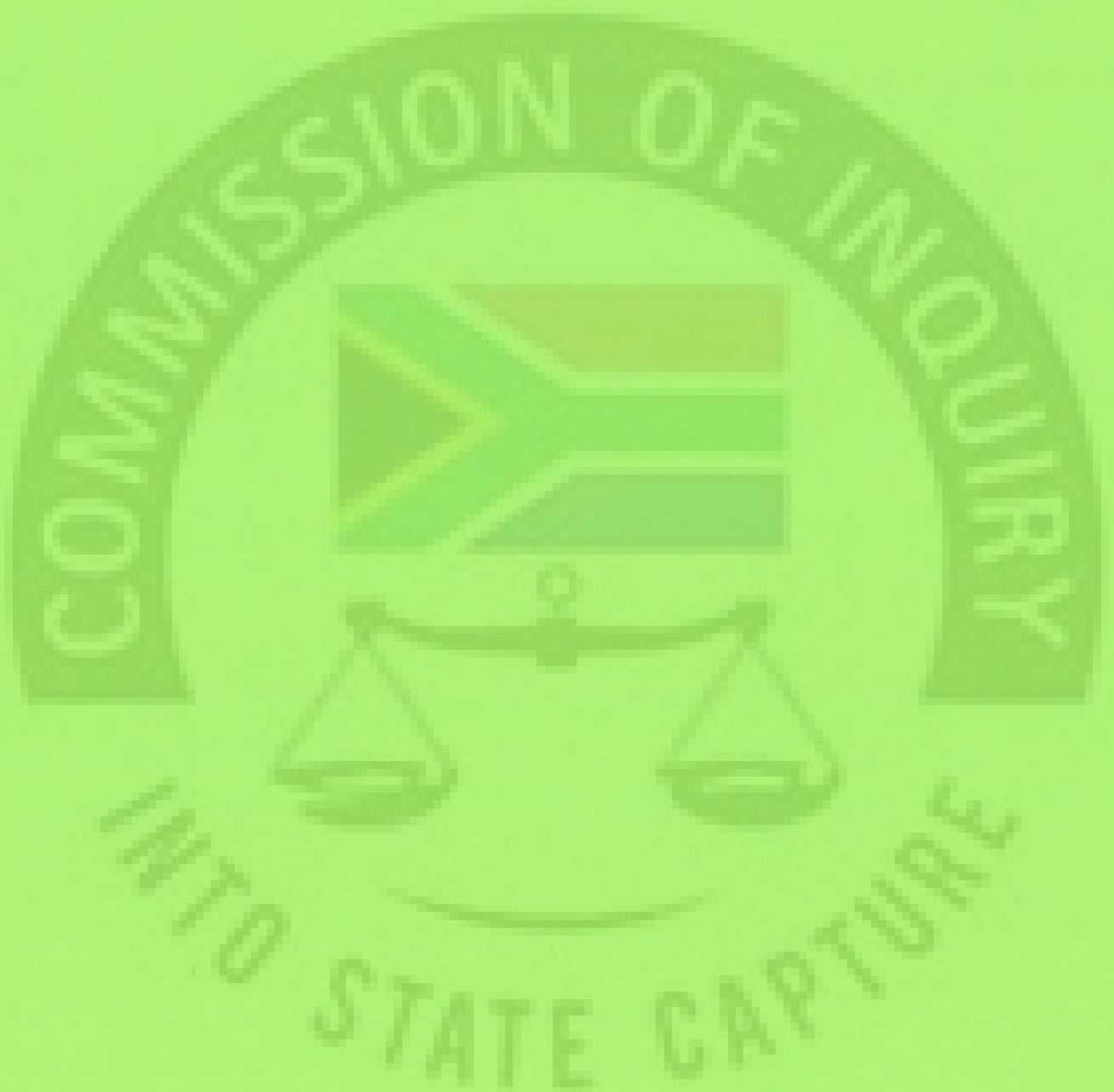
Minor language revisions may be made this evening in which case revised version will be printed for SteerCo tomorrow morning.

Thembi / Niresh – will you please distribute to rest of SteerCo

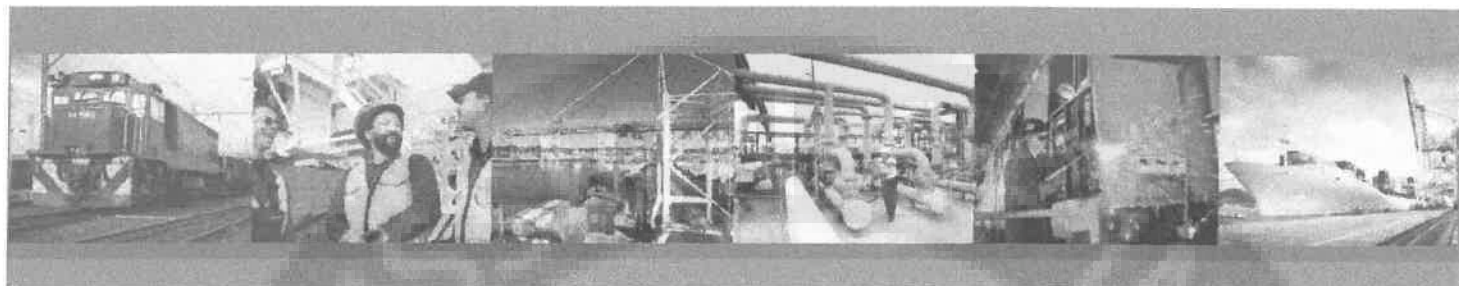
Regards

Francis

ANNEXURE FC 47



Procurement of 1064 Locomotives for the General Freight Business



Date of Submission to <OD IC>	17 th April, 2013
Addressed To	Board Acquisition and Disposal Committee
Title of Submission	Procurement of 1064 Locomotives for the General Freight Business
Date of Review	23 rd April, 2013

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	17/04/2013	Page 1 of 108

A. PURPOSE

This business case provides the rationale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to *accelerate locomotive deployment* to enable delivery against Transnet's Market Demand Strategy and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:

- Create value for Transnet by enabling TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target. This will result in a positive NPV (R0.3 billion at the TFR hurdle rate of 18.56 percent and R27.9 billion at the TFR WACC of 12.56 percent), top-line growth, enhanced return on assets (ROA), and an improved environmental footprint.
- Lower the cost of doing business in South Africa by enabling operational efficiencies that will increase customer satisfaction and facilitate a shift from road to rail.
- Create and preserve 28,000¹ direct and indirect South African jobs, and R68 billion in economic impact through local supplier development.

A robust procurement strategy and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet. A funding plan and forex management strategy are detailed in the business case.

The risks that are inherent in a procurement event of this nature have been identified and mitigation strategies are or will be put in place. Accordingly, it is recommended that the 1064 Locomotives Business Case be approved.

¹ Proportional to MDS-related job creation of 288,000

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	17/04/2013	Page 5 of 108

ANNEXURE FC 48



fcallard@telkomsa.net

From: Thembi Lekganyane Transnet Freight Rail JHB
Sent: 18 April 2013 10:08
To: Siyabonga Gama Transnet Freight Rail JHB; Mlamuli Buthelezi Transnet Freight Rail JHB; Brian Molefe Transnet Corp; Nomfuyo Galeni Transnet Freight Rail JHB; Kenneth Diedricks Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB; Anoj Singh Corporate JHB; Garry Pita Transnet Corporate JHB; Mohammed Mahomedy Transnet Corporate JHB; Yusuf Mahomed Transnet Corporate JHB; Ndiphiwe Silinga Transnet Corporate JHB; Pragasen Pillay Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Niresh Budhai Transnet Corporate JHB; Nkuli Mabandla Transnet Corporate JHB; Ashail Govender Transnet Corporate JHB
Subject: Fw: BADC Loco Business Case - updated document - FINAL
Attachments: 20130418 1064 Locomotives Business Case_FINAL.pdf

Morning,

This is the latest version for discussion this morning.

Kind Regards

Thembi

From: fabio_pedrazzi@mckinsey.com [mailto:fabio_pedrazzi@mckinsey.com]
Sent: Thursday, April 18, 2013 04:11 AM
To: Anoj Singh Corporate JHB
Cc: Yusuf Mahomed Transnet Corporate JHB; Niresh Budhai Transnet Corporate JHB; Thembi Lekganyane Transnet Freight Rail JHB; vikas_sagar@mckinsey.com <vikas_sagar@mckinsey.com>; naseem_saloojee@mckinsey.com <naseem_saloojee@mckinsey.com>; nischal_baijnath@mckinsey.com <nischal_baijnath@mckinsey.com>; alinafe_thupa@mckinsey.com <alinafe_thupa@mckinsey.com>
Subject: BADC Loco Business Case - updated document - FINAL

Anoj,

Hope all is well. Attaching the final version for BADC with updated numbers (now R2.7bn NPV vs. R0.3bn), including:

1. New FX curve based on Treasury's input
2. Adjusted fleet estimates to add up to 1064, as per JD's input today
3. Updated CO2 savings based on only diesel (changed from today's back of the envelope of R13m to R5m bottom up, accounting for updated fleetplan)
4. Updated TCO as a result of the forex change
5. New funding and forex hedging section, received from Dani this evening
6. Updated sensitivities (excluding CIC, although this impact should be minimal - but we can re-run this with your guys tomorrow if needed)

All exhibits have been updated.

All figures in the text are consistent across sections.

We are printing 15 copies of this new version for the SteerCo tomorrow. Please work off this version for our 9am pre-meeting at Carlton.

See you shortly.

Thanks,
 Fabio

(See attached file: 20130418 1064 Locomotives Business Case_FINAL.pdf)

Fabio Pedrazzi

McKinsey & Company
88 Stella Street Sandown Mews East Johannesburg South Africa
Direct +27 (0)11-506 80 86 Mobile +27 (0)82-329 80 86
fabio_pedrazzi@mckinsey.com

Executive Assistant: Yunus Rocker
Direct +27 (0)11-506 82 05
yunus_rocker@mckinsey.com

+=====+
This email is confidential and may be privileged. If you have received it
in error, please notify us immediately and then delete it. Please do not
copy it, disclose its contents or use it for any purpose.
+=====+



ANNEXURE FC 49



fcallard@telkomsa.net

From: Ashail Govender Transnet Corporate JHB
Sent: 25 April 2013 11:48
To: Brian Molefe Transnet Corp; Siyabonga Gama Transnet Freight Rail JHB; Nomfuyo Galeni Transnet Freight Rail JHB; Kenneth Diedricks Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB; Thembi Lekganyane Transnet Freight Rail JHB; Anoj Singh Corporate JHB; Garry Pita Transnet Corporate JHB; Mohammed Mahomed Transnet Corporate JHB; Roderick.Wolfenden@za.ey.com; Mpho.Rachidi@za.ey.com; Yusuf Mahomed Transnet Corporate JHB; Ndiphiwe Silinga Transnet Corporate JHB; Pragasen Pillay Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Mlamuli Buthelezi Transnet Freight Rail JHB; Rita Roper Transnet Freight Rail JHB; Nkuli Mabandla Transnet Corporate JHB
Cc: vikas_sagar@mckinsey.com; fabio_pedrazzi@mckinsey.com; naseem_saloojee@mckinsey.com
Subject: Draft Locomotive SteerCo Minutes and Matters Arising
Attachments: Loco Steering Committee -18 April 2013-Draft to Committee.doc; Loco Steerco Matters Arising from 18 April 2013.ppt
Importance: High
Sensitivity: Confidential

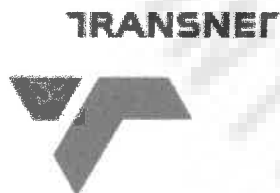
Dear Committee Member/Attendee

Kindly find attached hereto the draft minutes of the meeting dated 18 April 2013. Please review for accuracy and revert in track changes.

Further, I have attached the matters arising list from 18 April 2013. Kindly insert the status of the matter arising which is allocated to you i.e. open, done or on agenda and note that responses to matters arising should be provided in writing.

May I please request your earliest response.

Kind regards
 Ashail



Ashail Govender
 Company Secretary
 Group Company Secretariat
 Transnet SOC Ltd

☎ 011-308 2781 ☎ 083 448 7513
 📠 011- 308 2430 ✉ Ashail.Govender@transnet.net
 www.transnet.net

ANNEXURE FC 49A



MINUTES OF THE TRANSNET 1064 LOCOMOTIVES STEERING COMMITTEE MEETING NO 13/2 HELD ON THURSDAY, 18 APRIL 2013 AT 10:00 IN BOARDROOM 4425, 44TH FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

**For Attention/
Resolution No**

1 WELCOME, CONSTITUTION OF MEETING, SIGNING OF ATTENDANCE REGISTER AND APOLOGIES

1.1 Welcome and Constitution of meeting

The Acting Chairman welcomed all the members and attendees and having noted that there was a quorum, declared the meeting duly constituted.

The attendance register was circulated for signature.

1.2 Present

Mr A Singh	Group Chief Financial Officer (<i>Acting Chairman</i>)
Mr G Pita	Group Chief Supply Chain Officer
Mr N Silinga	General Manager: Group Legal Services (<i>on behalf of Ms Mabandla</i>)
Mr N Budhai	Manager: Capital Investment (<i>on behalf of Mr Mahomedy</i>)
Ms T Lekganyane	Executive Manager, Operations Development & Performance: Transnet Freight Rail
Mr R Wolfenden	TIA
Mr M Rachidi	TIA

1.3 In Attendance

Ms M Makgatho	Group Treasurer
Mr P Pillay	General Manager, Logistics Integration: Transnet Freight Rail
Mr F Callard	Senior Manager, Capital Planning and Governance: Transnet Freight Rail
Mr V Sagar	McKinsey
Mr F Pedrazzi	McKinsey
Mr N Saloojee	McKinsey
Mr N Baijnath	McKinsey
Ms A Thupa	McKinsey
Ms A Govender	Company Secretariat

1.4 Apologies

Mr B Molefe	Group Chief Executive (Chairman)
Mr SI Gama	Chief Executive: Transnet Freight Rail
Ms N Galeni	Chief Financial Officer: Transnet Freight Rail
Mr M Buthelezi	Chief Operating Officer, Transnet Freight Rail
Mr K Diedricks	General Counsel: Transnet Freight Rail
Mr T Jiyane	Chief Procurement Officer: Transnet Freight Rail
Ms R Roper	Capital, Transnet Freight Rail
Ms N Mabandla	Group Executive: Group Legal Services
Mr M Mahomedy	General Manager: Capital Execution
Mr Y Mahomed	General Manager: Office of the Group Chief Financial Officer

2 DECLARATION OF INTERESTS REGISTER

2.1 The Declaration of Interests Register was circulated for signature.

3 MATTERS FOR DISCUSSION

3.1 1064 Locomotives Business Case

3.1.1 The Acting Chairman highlighted the following:

- The purpose of the meeting is to consider and recommend the 1064 locomotives business case to the Group Executive Committee. Thereafter the business case will proceed through the following governance structures: the Board Acquisitions and Disposals Committee (BADC); the Board and thereafter, for Section 54 PFMA approval.

- The document was distributed to the Steering Committee members on 17 April 2013. However as the document was amended, the updated document was re-distributed to the Steering Committee members on 18 April 2013.

- The GCE has confirmed that he has worked through the document sent to him on 17 April 2013 and he is satisfied with the document.

- The differences between the document submitted on 17 April and 18 April 2013, include inter alia:

- (i) Significant amendment: The forex rates included in the model previously were high. The forex rates have now been amended downwards, which creates a NPV on the business case at hurdle rate of R2.7 billion. Accordingly, the R0.3 billion NPV at hurdle rate in the previous versions of the document has been amended to R2.7 billion. Consequently the business case is more robust.

- (ii) Minor amendments will be made in terms of grammar; the role of TE and how Transnet positions PPPFA in the business case.

- The team is comfortable with the models; sensitivities; the risks; the operational interdependencies and the financial analysis conducted in terms of the NPV's. The benefits that will accrue to Transnet and South Africa are captured in the document.

- The business case will be tabled at the Capital Investment Committee meeting to be held on 18 April 2013.

- The GCE will sign-off on the memoranda to the BADC and the Board on 18 April 2013, after the amendments are effected.

- Feedback with regard to the DPE process: The meeting scheduled for 17 April 2013 was cancelled, as Mr Pita's counterpart from DPE was unavailable. He has requested DPE to reschedule the meeting as a matter of urgency. This meeting may be rescheduled for 19 April 2013.

- Update with regard to the PPPFA: The Chairman of the BADC; Mr Pita and himself attended a meeting with the Director General of Public Enterprises on 15 April 2013. DPE understands the risks associated with the tender from a legal perspective and the implications of that on the business, in terms of volumes and the deployment of locomotives. The urgency for the exemption was highlighted, notwithstanding that Transnet is in the process of obtaining Senior Counsel opinion that may support its view that it does not require the PPPFA exemption.

- DPE was comfortable to support a letter from the Minister of Public Enterprises to the Minister of Finance, requesting an urgent review of the position adopted by National Treasury.

- Transnet raised the following two issues with DPE:

- (i) The premium issue, which the PriceWaterhouseCoopers process has indicated, is at a reasonable level compared to the procurement value of the tender. It is far from the 10-20% that National Treasury assumed the premium would be and the benefits

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3

For Attention
Resolution No

that Transnet derives from the tender outweigh the premium 170-1.

(ii) The 90/10 rule and the designation of the sectors have an unintended consequence of creating monopolies within the economy.

These two issues created a compelling argument for DPE to address National Treasury.

-DPE was pleased with the work conducted by Transnet, in terms of substantiating the business case from a monetary perspective.

-At the request of DPE, Transnet drafted a letter to DPE, which DPE will issue to the Minister of Finance. The Director General of Public Enterprises wanted to ensure that the PPPFA exemption is resolved by 19 April 2013.

-He commended and thanked the team on their efforts in producing the business case.

3.1.2 The Steering Committee **RESOLVED** that it recommends that the Group Executive Committee approves:

- The acquisition of 1064 locomotives for the General Freight Business.
- Estimated total costs of the acquisition of R38.6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation, other price escalations and borrowing costs).

13/2/1

4 GENERAL

4.1 Minutes

4.1.1 The Acting Chairman stated that minutes are not approved at a special meeting. The draft minutes will be distributed by the Company Secretary for comment by the Steering Committee and will be approved at the next meeting.

Company
Secretary

4.2 PMO Data Room

4.2.1 Ms T Lekganyane stated that the PMO data room has been set up. The Acting Chairman requested that documents which are available e.g. models; final versions of documents; memoranda to the BADC and Board; copies of signed minutes etc. should be sent to Ms Lekganyane.

Members/
Company
Secretary

5 CLOSE

5.1 There being no further business to conduct, the Acting Chairman declared the meeting closed.

ACTING CHAIRMAN
Date:

COMPANY SECRETARY
Date:

ANNEXURE FC 50



fcallard@telkomsa.net

From: nischal_bajjnath@mckinsey.com
Sent: 24 April 2013 11:39
To: Pragasen Pillay Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB
Cc: naseem_saloojee@mckinsey.com
Subject: BADC feedback and updates required
Attachments: Business Case Future 7 Year Traffic Volumes.xlsx

Hi JD, Francis,

Congratulations on the BADC approval, hopefully the Board meeting goes just as well.

Approval from BADC is conditional on a few minor updates which is required to be integrated into the business case before DPE submission. We need to integrate these updates by tomorrow afternoon.

The list is as follows:

- BADC has requested that Annexure 1 in the business case (attached below) needs to sum up to MDS volumes. @Francis, can you please update?
- *(See attached file: Business Case Future 7 Year Traffic Volumes.xlsx)*
- BADC has requested a section on Safety, relating to safety improvements expected due to the procurement of new locomotives, wagons and infrastructure. @JD/Francis, can you work together, if required, and submit text to integrate into the business case?
- BADC also requested information on change management, do you know who would be the best person to chat to regarding this?

Thanks,

Nischal Bajjnath

McKinsey & Company | Sandown Mews, East, 88 Stella Street | 2196 Sandown | Republic of South Africa
 Direct +27 11 506-8026 | Fax +27 11 506-9026 | Mobile +27 82 329-8026 | Internal 3278026
 nischal_bajjnath@mckinsey.com

+=====+
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 +=====+

ANNEXURE FC 51



fcallard@telkomsa.net

From: Niresh Budhai Transnet Corporate JHB
Sent: 29 April 2013 15:46
To: Brian Molefe Transnet Corp; Anoj Singh Corporate JHB; Siyabonga Gama Transnet Freight Rail JHB
Cc: Pragasen Pillay Transnet Freight Rail JHB; Francis Callard Transnet Freight Rail JHB; Johan Bouwer Transnet Freight Rail JHB; Natasia McMahon Transnet Freight Rail JHB; Thembi Lekganyane Transnet Freight Rail JHB; Yusuf Mahomed Transnet Corporate JHB; Garry Pita Transnet Corporate JHB; Thamsanqa Jiyane Transnet Freight Rail JHB; fabio_pedrazzi@mckinsey.com; vikas_sagar@mckinsey.com; alinafe_thupa@mckinsey.com; naseem_saloojee@mckinsey.com
Subject: Acquisition of 1064 Locomotives for GFB
Attachments: 20130429 1064 1500 Locomotives Business Case_NoAnx.pdf

Hi Team

Please find the attached business case for the acquisition of 1064 locomotives for GFB for your review and comment. Please note that the document has been updated as per the input from BADC (23 April) and our discussions with DPE last Thursday(25 April).

Brian, a printed copy will be dropped off at your office for your review.

It will be most appreciated if all feedback is received by 12:00, 30 April 2013.

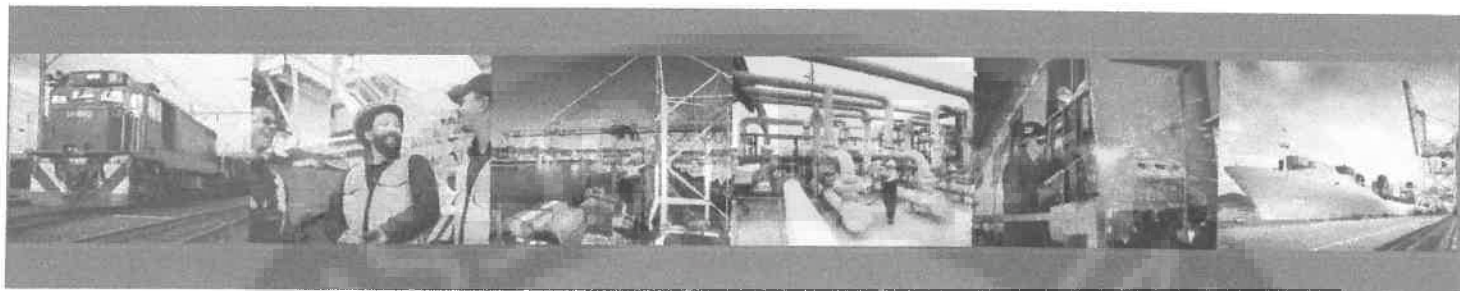
Thanking you for your continued support.

Regards
niresh

ANNEXURE FC 51A



Procurement of 1064 Locomotives for the General Freight Business



Date of Submission to BoD	29 th April, 2013
Addressed To	Transnet Board of Directors
Title of Submission	Procurement of 1064 Locomotives for the General Freight Business
Date of Review	29 rd April, 2013

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	29/04/2013	Page 1 of 116

A. PURPOSE

This business case provides the rationale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to *accelerate locomotive deployment* to enable delivery against Transnet's Market Demand Strategy (MDS) and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:

- Create value for Transnet by enabling TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target. This will result in a positive NPV (R2.7 billion at the TFR hurdle rate of 18.56 percent and R34.1 billion at the TFR WACC of 12.56 percent), top-line growth, enhanced return on assets (ROA), and an improved environmental footprint.
- Lower the cost of doing business in South Africa by enabling operational efficiencies that will increase customer satisfaction and facilitate a shift from road to rail.
- Create and preserve 28,000¹ direct and indirect South African jobs, and R78 billion in economic impact through local supplier development.

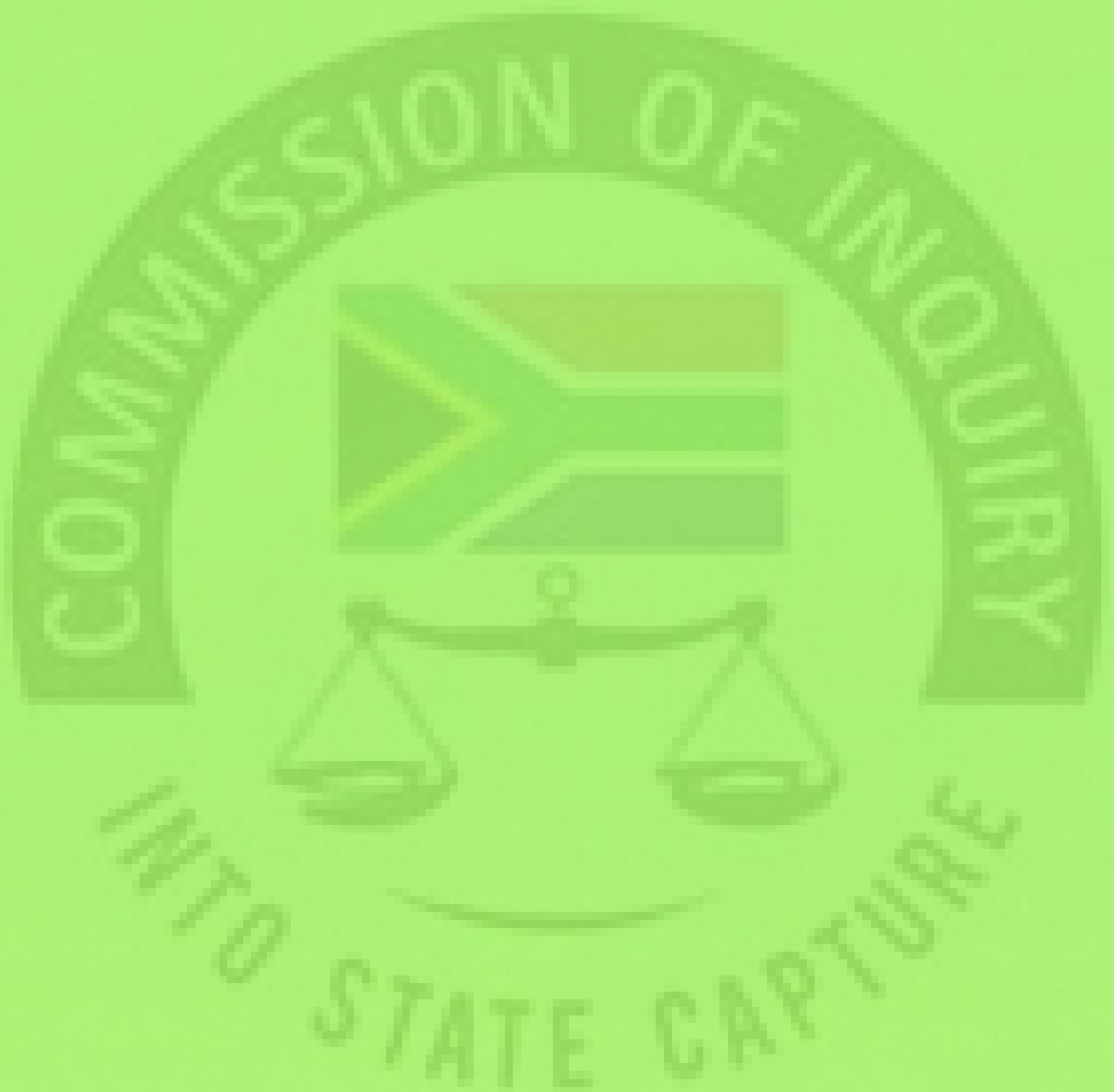
A robust procurement strategy that is aligned with Government socio-economic policies and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet and South Africa. A funding plan and forex management strategy are detailed in the business case.

The risks that are inherent in a procurement event of this nature have been identified and mitigation strategies are in place. Accordingly, it is recommended that the 1064 Locomotives Business Case be approved at a cost of R38.6 billion excluding borrowing costs.

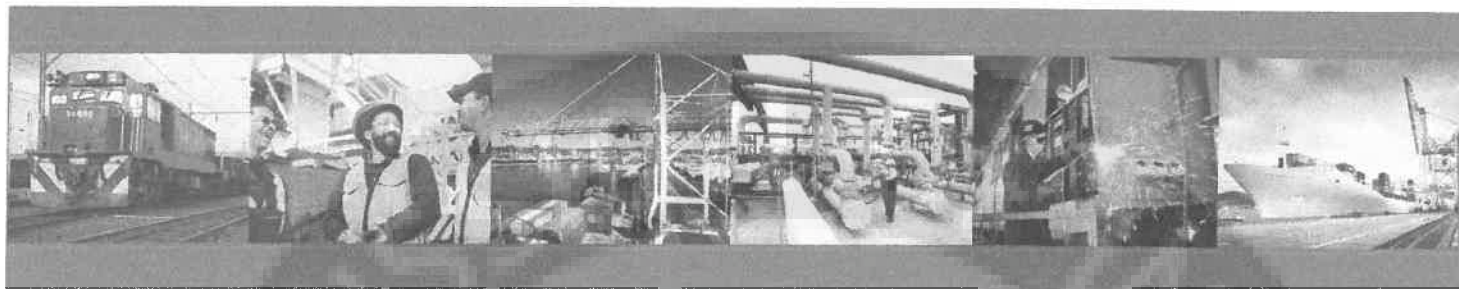
¹ Proportional to MDS-related job creation of 288,000

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	29/04/2013	Page 4 of 116

ANNEXURE FC 52



Procurement of 1064 Locomotives for the General Freight Business



Date of Submission	25 th April, 2013
Addressed To	Transnet Board of Directors
Title of Submission	Procurement of 1064 Locomotives for the General Freight Business – Final Version

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	25/04/2013	Page 1 of 117

A. PURPOSE

This business case provides the rationale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear need to *accelerate locomotive deployment* to enable delivery against Transnet's Market Demand Strategy (MDS) and achieve South Africa's broader socioeconomic objectives. The new locomotive purchase will:

- Create value for Transnet by enabling TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target. This will result in a positive NPV (R2.7 billion at the TFR hurdle rate of 18.56 percent and R34.1 billion at the TFR WACC of 12.56 percent), top-line growth, enhanced return on assets (ROA), and an improved environmental footprint.
- Lower the cost of doing business in South Africa by enabling operational efficiencies that will increase customer satisfaction and facilitate a shift from road to rail.
- Create and preserve 28,000¹ direct and indirect South African jobs, and R78 billion in economic impact through local supplier development.

A robust procurement strategy that is aligned with Government socio-economic policies and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet and South Africa. A funding plan and forex management strategy are detailed in the business case.

The risks that are inherent in a procurement event of this nature have been identified and mitigation strategies are in place. Accordingly, it is recommended that the 1064 Locomotives Business Case be approved with estimated total costs of the acquisition of R38.6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation and other price escalations).

¹ Proportional to MDS-related job creation of 288,000

Transnet Freight Rail	Capital projects	
1064 Locomotives Team	25/04/2013	Page 4 of 117

ANNEXURE FC 53



20130430 1064 0900 Locomotives Business Case_NoAnx

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Last Printed 30/04/2013 10:04

Related People

Author

MM Meleni Moodley

Add an author

Last Modified By

YM Yusuf Mahomed

Transnet Corporate JHB

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