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**ACQUISITION OF 1064 LOCOMOTIVES FOR TRANSNET'S GENERAL
FREIGHT BUSINESS ("TRANSACTION"): INQUIRY
REPORT**

VOLUME II

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Appendix 1

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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

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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

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B. EXECUTIVE SUMMARY

Business need

Transnet Freight Rail (TFR) is moving from a strategy of "responding to confirmed demand" to creating "capacity to unlock demand". The MDS is informed by future planned investments that support the move from road to rail by targeting rail-friendly traffic currently on the road as well as other volume growth opportunities. As part of Transnet's MDS, TFR has committed to grow its volumes by 143 million tonnes, from 208 million tonnes to 350 million tonnes; over 60 percent of this growth is expected to be delivered by the General Freight Business (GFB), which will grow from the current 82.6 million tonnes to 170 million tonnes by 2019. TFR plans to invest R194 billion in capital to deliver this growth in total volumes; of this, R143 billion is planned to be invested in GFB, R19 billion in export iron ore and R32 billion in export coal. Of the total capital invested in GFB, 53 percent will be expansionary and 47 percent sustaining capital.

This investment in growing GFB volumes make business sense, as it lowers the cost of doing business and accelerates a modal shift from road to rail. The majority (85 percent) of the growth in GFB demand is generated by: rail-friendly bulk commodities that need to be transported long distances such as manganese, magnetite, and domestic iron ore; bulk commodities with certain demand, like coal needed for Eskom's power stations; and container-based commodities for which existing demand moves on road and will shift to rail. Moreover, South Africa is well-positioned on global cost curves for GFB commodities that are exported, such as manganese, magnetite, and thermal coal, which mitigates the volume downside due to inevitable global commodity volatility.

Current and new fleet requirements

The average age of the TFR GFB fleet is currently 32 years and comprises 1889 locomotives, which are broadly divided into workhorses and shunters, with the workhorses being the prime income generators. There was a major procurement of over 1000 locally manufactured electric locomotives in the 1970s and 1980s, which became the workhorses of the current fleet. No new locomotives were purchased for GFB from 1992 through to 2008 when the GFB fleet was augmented by a series of purchases that included 50 "like new" diesels, 100 diesels, and 43 diesels; currently, 95 new electrics are on order from China. These purchases were not sufficient to meet market demand and achieve a road to rail migration.

The economic design life of a locomotive is 30 years. In the absence of new locomotives, the workhorse fleet was given life-extending upgrades where possible that extended the working life to 45 years. However, this has resulted in increased maintenance costs as well as difficulty in obtaining spares. As the most cost-effective and technology-compatible options for extending the life of a locomotive are exhausted, further extensions are no longer economically cost-effective or technologically practical.

Proposed way forward on locomotive fleet expansion-related economic impact

The recommended way forward is for TFR to proceed with programmatic procurement of new locomotives. TFR has explored two options: continuing with the status quo, which is economical / unviable and does not support the volume ramp-up envisaged by the MDS, putting the entire MDS at risk; new locomotive acquisition is the only viable and recommended option:

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- A status quo scenario. The current fleet has already begun to run out. Based on TFR's current Locomotive Fleet Plan, the number of locomotives in the GFB fleet will decline from 1889 in 2014 to 1592 by 2019, with further run-out thereafter as the oldest and costliest assets in the fleet are retired. Half the fleet will be retired within 10 years and nearly the entire fleet within 20 years. If this run-out is not addressed, TFR would only have capacity to transport 85 million tonnes in 2019 – 85 million tonnes short of its MDS commitment, representing a cumulative revenue shortfall versus the MDS plan of R73 billion over this period. MDS will not be executed and there will be a negative impact on cash interest cover (CIC) and gearing.
- A new locomotive procurement scenario. TFR has to invest in new locomotives to replace its current aged fleet and to support its planned volume ramp-up. To achieve this, TFR needs to procure 1064 locomotives (465 diesel and 599 electric) over the next 7 years. Procuring 1064 new locomotives between 2013/2014 and 2018/2019 would have a positive NPV of R2.7 billion (discounted using TFR's hurdle rate of 18.56 percent; NPV would be R34.1 billion if discounted using TFR's WACC of 12.56 percent). Accordingly, the only viable solution to deliver on GFB's R53.8 billion revenue MDS target in 2019 is to procure new locomotives.

Benefits of the 1064 locomotive acquisition programme

The 1064 locomotive acquisition will benefit Transnet, South Africa and South African business.

For Transnet, the locomotive acquisition programme will:

- Enhance locomotive operational efficiency thereby increasing asset utilisation.
 - TFR will leverage new technology specification locomotive efficiencies. The new locomotives increase the rate of the fleet's availability and reliability. In addition, further operational efficiencies may be possible by leveraging increased tractive effort to limit the number of locos needed for a given flow or redesign of flows altogether (e.g., some flows have both AC and DC lines, which currently require stops and changeovers between different locomotive types but will not with dual-electric locomotives).
 - The programme offers TFR an opportunity to standardise its locomotive fleet by procuring a limited number of locomotive types. This will result in a host of benefits including simplified maintenance.
- Create business opportunities for Transnet Engineering (TE) to substantially participate in the localisation programme and thereby retain a portion of the locomotives' spend within Transnet.
- Significantly impact TE with respect to maintenance practices and consolidation of maintenance depots where the new locomotives have extended service intervals and on-board diagnostic health monitoring systems where full advantage is to be taken of the currently available technology and international best practice. This is the result of a full deployment plan developed by business unit, year, class of locomotive and depot.
- Enhance Transnet's return on assets and increase financial sustainability. This will be driven by volume growth and declining unit costs of production and will be achieved despite the increase in depreciation.

For South Africa, this large-scale procurement programme will:

- Create R68 billion in localisation benefits for the South African economy. Transnet stipulates local content of 55 percent for diesel and 60 percent for electric locomotives. Given the economies of scale on the purchase of 1064 locomotives with the stipulated localisation

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requirements, desired localisation can be achieved for only a 2 percent average cost of localisation – an additional investment of just over R600 million. This equates to a highly attractive benefit cost ratio of more than 125 to 1.

- Catalyse the sustainable development of a South African locomotive production industry based on the procurement of 1064 locomotives over approximately 7 years and an estimated on-going annual need of 80 locomotives driven by TFR's 30-year replacement life policy.
- Develop manufacturing skills, which will ultimately support not only the locomotive industry but also South Africa's manufacturing sector more broadly.
- 28,000 indirect and direct South African jobs, created and preserved.
- Achieve greater road safety and fewer road fatalities by supporting the shift from road to rail
- Energy savings will be achieved, with 8- 10% lower fuel consumption for diesels and 18% energy savings for electrics. For the diesel locomotives alone, this will result in savings of over 31,000 tonnes of CO₂ and R5 million per year by 2018/2019.

For South African business, the locomotive acquisition will:

- Increase customer satisfaction and enhance the ease of doing business as higher locomotive reliability results in better adherence to schedules.
- Lower the cost of doing business by catalysing a shift from road to rail, which is a more cost-effective mode of transportation for distances over 300 kilometres. Given the spatial dispersion of South African centres of economic activity and the distances between the centres of production and ports, this will benefit most businesses.
- Lower infrastructure repair costs driven by the road to rail shift as damage to roads from the current trucking of commodities like coal is reduced. In addition, it will contribute towards a reduction in road traffic fatalities.

Programmatic procurement strategy and evaluation criteria

Transnet's procurement strategy for the acquisition of 1064 new locomotives, approved by the Board, includes the following key aspects:

- Alignment with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSi, and IPAP2.
- Increasing local content through developing skills, creating jobs, and transferring technology. Transnet's programmatic procurement strategy follows threshold requirements for locomotive localisation, in line with those designated by the National Treasury (i.e., 55 percent for diesel, 60 percent for electrical locomotives).
- Approaching the market through an open tender process to attract the broadest possible supplier base and maximise value for South Africa and Transnet. Tenders have been issued for both locomotive types. The RFP closure date is April 28th, 2013.
- A six-step evaluation methodology will be applied based on the evaluation criteria: price 60 percent; supplier development 20 percent; and Broad-Based Black Economic Empowerment (B-BBEE) 20 percent.

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Managing sensitivities and risks

Procuring Transnet's 1064 new locomotives in the most capital-efficient way requires a detailed understanding of inherent volatilities, risks, and mitigation plans. The locomotive requirement and the pace at which Transnet needs to deploy its capital in the base case scenario is shaped by two factors:

- **Volume volatility.** TFR's overall locomotive procurement programme is based on current, validated MDS GFB volumes. However, given the volatility in the global and domestic economy, the realisation of these volumes may be different than planned. 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.
- **Operational efficiency potential.** TFR's current Fleet Plan estimates the number of locomotives including the potential efficiencies that can be captured from technology improvements and operational flexibility of new locomotives. Further operational efficiencies may be possible by leveraging increased tractive effort to limit the number of locomotives needed for a given flow or redesign of flows altogether. These operational efficiencies have not been incorporated in the business case - capturing them could reduce the number of locomotives needed and improve the upside of this business case. The aforementioned flexibility Transnet builds into its procurement strategy will also address this sensitivity.

The following are some of the key risks and sensitivities that are important to consider and mitigate:

- **Volumes.** Of all variables, volume risk has the greatest potential to impact NPV. For example, with a slight underperformance (7 percent versus MDS targets), Transnet would experience revenue shortfalls of R16.4 billion and a reduction in NPV of R1.7 billion. However, under the worst case scenario (growth of volumes in line with GDP as opposed to MDS), NPV would be reduced by over R20 billion. This reinforces the aforementioned need for a flexible procurement and contracting strategy, allowing locomotives to be brought online as they are needed.
- **Delivery schedule.** TFR already has a shortfall of DC electrics, with the electric locomotive shortfall projected to grow to approximately 122 electrics and 32 diesels by 2015. Given the previously expected timelines to procure new locomotives locally, TFR may not be able to close this shortfall until the end of the MDS period. Under the base case (procurement in line with schedules stipulated in the RFP), R13.3 billion in MDS revenues would be at risk; this would more than double under a moderately delayed scenario with further downside under the worst-case scenario. As a result, procurement and production timelines are being tightly managed to ensure the swiftest possible locomotive delivery, and immediate mitigation strategies are being explored. These include front-loading orders with international suppliers and exploring leasing options.
- **Tariffs.** The MDS GFB tariffs are expected to increase faster than CPI through 2020 (7 percent versus 6 percent). Given that the pricing on almost all GFB commodities is below the cost of full economic recovery even after taking into account all efficiencies, the pricing corridor in TFR's plan is achievable. However, should global and local economic conditions create challenges and tariffs above CPI cannot be implemented, the implication would be a reduction in the NPV of the business case by upwards of R4 billion.
- **Foreign exchange exposure.** Assuming target levels of localisation, a change in the Rand to US dollar exchange rate of 10 percent would represent a ~R1.2 billion impact on capital expenditure. Given 15 percent devaluation of the rand against the US dollar over the past year

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alone, such volatility is not unrealistic. See the Treasury Section below for the mitigation strategy.

- Locomotive purchase price. Closely linked to foreign exchange fluctuations are additional locomotive price risks that need to be actively managed during contracting and negotiations (e.g., change order risks related to detailed specifications). A purchase price increase of 10 percent would have a -R1.5 billion impact on NPV.

Transnet Treasury requirements relating to the locomotive acquisition

Funding plan. The acquisition of 1064 locomotives will cost R38.6 billion and has been included in the overall MDS funding amount of R86.5 billion over the next 6 years. Consequently, the funding options will include those in the borrowing plan as contained in the approved Transnet Corporate Plan 2013/2014. A mixture of cash generated by operations and external borrowing will be used to fund the acquisition. Two-thirds are assumed to be financed using cash generated by operations, and about R13 billion will need to be raised externally. The external funding will be raised utilising both the Global Medium Term Note programme for dollar funding and established domestic sources for Rand funding – e.g., the Domestic Medium Term Note programme. In addition, options like development finance institutions (DFIs) and export credit agencies (ECAs) will be considered to lower the cost of funding.

Foreign exchange exposure management. Transnet's Group policy on Financial Risk Management requires that all contracts must be either Rand-based or effectively hedged to minimise the risk of financial loss due to exchange rate fluctuations. Should a Rand-based contract not be possible, hedge accounting will be applied to manage any foreign exchange volatility. The project will be hedged according to the Group Financial Risk Management Framework.

Robust governance

Given the magnitude of this transaction, Transnet has developed a clear governance framework, including:

- The highest standards of confidentiality, reinforced through a High-Value Tender process with oversight from Transnet Internal Audit.
- A 1064 Locomotive Steering Committee meeting, chaired by the Group Chief Executive Officer, has been instituted. This Steering Committee is constituted as a sub-committee of Group ExCo.
- A PMO has been established at TFR with specific responsibilities for: tracking progress towards milestones; establishing and owning a virtual data room based on best practice; scheduling Steering Committee meetings at the request of the Chair and following up on action items; and ensuring that confidentiality protocols are in place.

Ensuring operational readiness

TFR has operational readiness plans in place to ensure efficient deployment of its new locomotives:

- **Critical path interdependencies – integrating locomotives, demand, wagons, infrastructure and operations.** Wagons are tightly linked to the commodities they transport, while locomotives relate to the mass but not the commodity itself; thus, locomotives are allocated according to the tonnes transported over the particular operating section.

The proposed diesel locomotives can operate over most of the network with the notable exception of long tunnels. Current single voltage electric locomotives (AC or DC) are confined

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according to the current electrification network. This imposes operational inefficiencies due to the traction changes. The new electric locomotives will be dual voltage, eliminating the need to change tractive power and enabling trains to bypass yards.

In addition to the flexibility afforded by the locomotive standardisation above, the 1064 locomotive dependencies with megaprojects, such as Manganese and Waterberg, have been considered and addressed. Human Resources planning is equally critical to execute a programme of this magnitude. For example, to support the overall TFR fleet ramp-up, TFR will need to train 3065 train drivers and assistants. To address current driver shortfalls and increasing requirements over time, TFR will need to begin training drivers immediately.

- **Maintenance regime.** TE will be significantly impacted with respect to maintenance practices and the consolidation of maintenance depots. New locomotives have extended service intervals and on-board diagnostic health monitoring systems, requiring a different maintenance regime than TE currently delivers (e.g., large "super depots" for large-scale maintenance, with smaller stations for refuelling and other basic services).

Conclusion

Transnet's purchase of 1064 locomotives is a critical procurement event that will facilitate Transnet's delivery against its MDS targets, transform the business, increase operational efficiencies and support local supplier development. Transnet's procurement strategy will be flexible enough to adapt to actual locomotive demand that is realised over time.

Recommendation

Transnet recommends to the Board of Directors for approval:

- 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 and other price escalations).

Signed by:

Brian Molefe
Group Chief Executive

Siyabonga Gama
TFR Chief Executive

Anoj Singh
Group Chief Financial Officer

Johannesburg, 25th April 2013

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C. BUSINESS CASE

1. Context

Transnet's MDS is driven by Transnet's shift in strategic focus from "responding to confirmed demand" to creating "capacity to unlock demand". In addition, it is a response to the National Development Plan and National Growth Plan imperatives seeking to contribute to South African economic growth and create jobs on an unprecedented scale.

Shift in Transnet's strategic focus and resulting infrastructure needs

The TFR MDS was borne of a number of strategic drivers. These include:

- The Intent to make a significant contribution to national objectives embedded in the New Growth Path and the National Development Plan – to create capacity, to enable an export-led strategy, to develop infrastructure and to create jobs and develop skills.
- To address the legacy structural imbalances in the freight transport system. Significant tonnages of freight are conveyed by road rather than rail which contribute to high logistics costs (and compromises country competitiveness) and to the cost of externalities. Greater tonnages of traffic being transported by rail would make a significant contribution to reducing the number of heavy trucks on roads; overall transport and logistics costs; cost of externalities i.e., road damage, road accidents, road congestion, noise pollution, carbon emissions, the impact of rising fuel prices.
- To pursue opportunities for growth in transportable GDP by targeting rail-friendly opportunities.

The MDS is informed by future planned investments that generate rail-friendly traffic and target rail-friendly traffic currently on the road. As part of this strategy, TFR has committed to grow its volumes by 142 million tonnes to 350 million tonnes by 2018/19. Over 60 percent of this growth is expected to be delivered by the General Freight Business (GFB), which will grow from the current 82.6 million tonnes to 170 million tonnes by 2019 and is the focus of this business case. To enable this strategy, Transnet plans to invest R308 billion over the next 7 years. The total investment directed to TFR will be R194 billion to deliver on its significant volume growth targets; of this R143 billion is planned to be invested in GFB, R19 billion in export iron ore, and R32 billion in export coal. Of the total capital invested in GFB, 53 percent will be in expansionary projects.

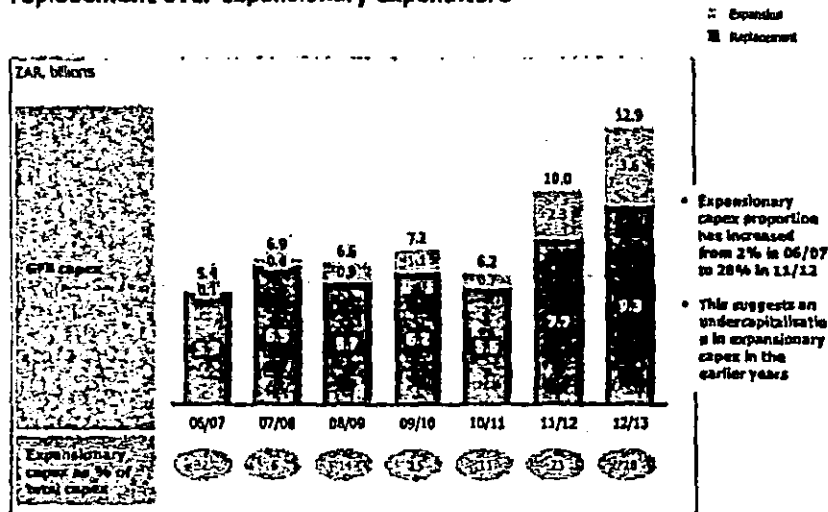
GFB's current situation is an important point of departure to fully understand the business case. While TFR has steadily ramped up investments since 2004/05, these have been largely directed at the export iron ore and export coal businesses. By contrast, little has been spent on expanding GFB capacity and infrastructure since 1992. Even in more recent years, as per the Exhibit below, the focus of GFB capex has been maintenance rather than expansion.

Even in more recent years, as seen in the exhibit below, the focus of GFB capex has been maintenance rather than expansion.

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EXHIBIT 1

GFB expansionary has historically been undercapitalised with focus on replacement over expansionary expenditure



This has left GFB highly undercapitalised, with its aging infrastructure unable to meet current market demand let alone generate and service new freight demand in sectors where South Africa has a comparative advantage. This not only limits the growth of Transnet but more importantly hampers the growth of South Africa's economy and leaves the cost of doing business in South Africa uncompetitive, particularly as the road share of total freight transport has increased over time at the expense of rail. It is therefore imperative to rectify this and to enable TFR to service current rail-friendly demand, stimulate further demand, and catalyse a shift from road to rail.

The MDS will address these issues, laying out a plan to improve financial stability, productivity, and operational efficiency and to shift demand from road to rail. Through this strategy, Transnet will: reduce its cost of doing business while becoming more carbon efficient; enable economic growth, job creation, and skills development; and create opportunities for localisation, empowerment, and transformation.

Investing in GFB is a sound business decision. The growth in GFB volumes is driven by commodities and flows that are rail-friendly and attractive for TFR. The majority (85 percent) of the growth in GFB demand is generated by rail-friendly bulk commodities that need to be transported long distances – manganese, magnetite, domestic iron ore, containers; with certain demand – e.g., coal needed for Eskom's power stations; and commodities for which existing demand moves on road and will shift to rail. Moreover, South Africa is well-positioned on global cost curves for GFB commodities such as manganese, magnetite, and thermal coal, which mitigates the volume downside due to inevitable global commodity volatility.

Although global growth has been constrained by the slowdown in global and local economic activity, the strategic intent of the MDS remains, and volumes are projected to grow from 82.6 million tonnes in 2012/13 to 170 million tonnes in 2018/19.

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National Development Plan (NDP) and National Growth Plan (NGP) Imperatives

Transnet is an important enabler of South Africa's NDP and NGP.

Alignment with priority infrastructure initiatives for South Africa

The NDP aims to address poverty and inequality by creating a favourable environment for public and private investment to create jobs and increase disposable incomes. Its imperatives include economic growth, job creation and skills transfer, infrastructure investment in rail, power, and other industry, a reduction of GHG emissions, and positioning South Africa positively. To achieve full employment, the economy will have to create 11 million jobs by 2030, requiring economic growth of 5.4 percent. The South African government has made infrastructure a major priority, recently announcing the establishment of a Presidential Infrastructure Coordinating Commission and planning investments of more than R800 billion over the next 3 years. Transnet's major infrastructure projects are important pillars of Strategic Integrated Projects (SIPs) and playing their role in delivering on economic growth and job creation objectives.

GHG emission commitments

As a state-owned enterprise and one of the top 10 carbon emitters in South Africa, Transnet has placed reducing carbon emissions high on its agenda. South Africa – having set aggressive targets for carbon mitigation (a 34 percent reduction by 2020 committed at COP 15² in Copenhagen) and hosting COP 17³ in Durban in 2011 – will count on state-owned entities to be role models in this regard.

With the National Treasury making significant strides towards implementing a carbon tax, and the Department of Environmental Affairs developing national marginal abatement cost curves (MACCs) and carbon budgets, carbon reduction will become a strategic imperative for major emitters like Transnet.

2. Business need

To deliver on MDS, GFB will need to grow its volumes transported from 82.6 million tonnes to 170 million tonnes between 2012/13 and 2018/19.

2.1 The shift from road to rail

One of the drivers of this shift is TFR's stated objective to capture market share from road. The rationale for this is that:

- Rail is cheaper than road for long-haul transportation of large parcel sizes, thus reducing the cost of doing business and making South African goods more competitive.
- Rail produces lower emissions per gross tonne kilometre than road, thus assisting South Africa's GHG emissions reduction effort.
- Haulage by road damages road infrastructure, requiring a significant investment to repair the roads.

² The 15th Conference of the Parties (COP 15) to the United Nations Framework Convention on Climate Change (UNFCCC) – Copenhagen.

³ The 17th Conference of the Parties (COP 17) to the United Nations Framework Convention on Climate Change (UNFCCC) – Durban, South Africa.

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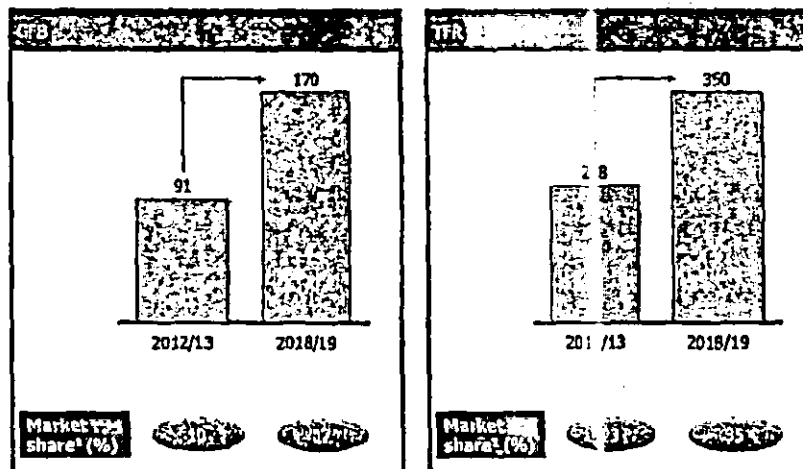
Furthermore, for developing economies like South Africa, economic growth results in a relatively higher increase in trade volumes – and therefore freight demand – than GDP growth rates would otherwise imply (i.e., a higher container volume multiplier, which measures the marginal effect of economic growth on freight volumes).

Therefore, given the clear impetus for volume growth and a shift from road to rail, delivering on the MDS depends on TFR's ability to capture volumes. TFR plans to capture rail-friendly volumes from road by developing a comprehensive value proposition based on customer needs. Rail-friendly goods are typically mineral and mining commodities and some manufactured goods, as well as raw material inputs to manufactured goods (such as steel and cement) that are conveyed from siding to siding in large parcel sizes, over relatively long distances. 66% of the projected volume growth of 79.2mt from 2013/14 to 2018/19 will be transported over distances greater than 300kms, a distance by which rail is cheaper than road. Transnet believes the rest of the flows will have preference for rail transportation (e.g., the bulk of the remaining volumes relate to Eskom coal flows which are rail preferred due to Eskom simplifying their logistics chain, public sentiment against road transportation for coal and reducing the damage to road infrastructure). TFR's market share is expected to grow from 23% to 35% as shown in the exhibit below.

EXHIBIT 2

Both GFB and TFR are expected to capture significant market-share over the MDS period

Millions of tonnes per annum



1 Refers to share of total South African land freight market.
SOURCE: TFR corporate plan 2013/14

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2.2 GFB demand increase by commodity

From the TFR Corporate Plan, freight rail volume projections per commodity from 2013-2019 are summarised in the following exhibit. The projections represent a market demand view of volumes in support of South Africa's New Growth Path (moderated in line with port capacity and Eskom electricity supply), and they reflect a significant growth in volume for the overall general freight commodities.

EXHIBIT 3

MDS volumes by commodity

Business Unit	2013/14 Budget	2014/15	2015/16	2016/17	2017/18	2018/19
Agriculture & Bulk Liquid	12.66	14.39	15.63	18.02	18.66	19.26
Coal	16.86	19.92	24.93	36.34	44.61	48
Manganese	8.7	8.72	11.57	11.05	15.56	17.03
Containers and Automotive	12.63	14.27	18.32	19.94	15.25	16.71
Mineral Mining & Chrome	18.53	20.32	24.45	28.89	30.11	30.57
Steel & Cement	21.84	26.66	32.37	35.23	36.47	38.89
General Freight (mt)	91.21	104.27	127.27	151.46	160.66	170.45
Coal (Export Coal)	77	81	81	84	95	97.5
Export Iron Ore	61.5	62.3	62.3	70.3	78.3	82.5
TFR Total (mt)	229.71	247.57	270.57	305.76	333.96	350.45

To capture these increases in freight demand, GFB has developed a commodity-level commercial strategy. The next two exhibits show the sources of growth from the major commodity flows and the various strategies developed to address them. See Supporting Documentation section E1 for the full 7-year commodity growth. Growth in coal volumes will be driven by Eskom's shift from road to rail on the Eskom-Tutuka and Eskom-Majuba flows and the development of new power stations. Steel and cement will be driven by a competitive pricing strategy aiming to capture domestic coal, and iron ore volume growth from the government infrastructure development plan. The focus on unlocking capacity for junior miners will capture volume growth from manganese export. Mineral volume growth will be secured through penetrative pricing strategies in the growing market.

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EXHIBIT 4

Rationale for 79mt increased commodity demand for GFB from 91mt in 2013/14 to 170mt in 2018/19 (1/2)

Flow	Commercial strategy	Key flows	Growth (Δ mt)	Rationale
Coal	<ul style="list-style-type: none"> • Capture increasing coal export volumes • Eskom move from road to rail • Secure volumes through take or pay contracts 	<ul style="list-style-type: none"> • Export TCM/Maputo • Eskom – Tutuka • Eskom – Majuba • Coal - Other 	<ul style="list-style-type: none"> 8.1 6.5 5.2 11.3 	<ul style="list-style-type: none"> • TCM to expand due to Limpopo projects (Vele and Makhado) • Transition from rail containers to tippler solutions in 2 years • Eskom road to rail migration plan • Sustained strong demand for SA coal due to China and India emerging as net thermal coal importers
Steel and cement	<ul style="list-style-type: none"> • Customer-focused value proposition to secure volumes • Revision of pricing strategy • Exploring markets ex-SA 	<ul style="list-style-type: none"> • Coal (domestic) • Iron ore (domestic Sishen) • S&C - Other 	<ul style="list-style-type: none"> 3.8 2.8 10.4 	<ul style="list-style-type: none"> • Driven by growth in other industries (e.g., Steel, timber) • Domestic and regional consumption of steel fueling demand for iron-ore & new iron ore export from Thabazimbi to Richards Bay/Maputo • Cement volumes to increase in line with SA's GDP growth (4% on average) • Freight rail is also targeting rail-friendly volumes in this sector
Manganese	<ul style="list-style-type: none"> • Unlock capacity for junior miners • Capacity review process 	<ul style="list-style-type: none"> • Manganese 	8.3	<ul style="list-style-type: none"> • SA's share of world output set to grow with expansion projects planned by both traditional miners and junior miners

EXHIBIT 5

Rationale for the 79mt increased commodity demand for GFB from 91mt in 2013/14 to 170mt in 2018/19 (2/2)

Flow	Commercial strategy	Key flows	Growth (Δ mt)	Rationale
Minerals and chrome	<ul style="list-style-type: none"> • Pricing aimed at market penetration 	<ul style="list-style-type: none"> • Magnetite (Export Maputo) • MNC - Other 	<ul style="list-style-type: none"> 2.4 9.6 	<ul style="list-style-type: none"> • Demand from China driven by steel production • Gold ore and other minerals enjoy healthy demand
Intermodal	<ul style="list-style-type: none"> • Containerise mineral products • Develop Freight hubs in key areas 	<ul style="list-style-type: none"> • Coal (Eskom – Camden) • Containers 	<ul style="list-style-type: none"> 2.6 1.6 	<ul style="list-style-type: none"> • Demand increase driven by increased electricity usage • Rail container volumes to increase in line with freight rail's objective of increasing market share along key intermodal routes such as the Walcor
Agribusiness and bulk goods	<ul style="list-style-type: none"> • Transnet Rail and Port capacity support for agri-logistics and rural infrastructure • Demand shift from road to rail 	<ul style="list-style-type: none"> • Grain, maize, wheat and foodstuffs • Other 	<ul style="list-style-type: none"> 2.1 4.3 	<ul style="list-style-type: none"> • Demand increase driven by increased electricity usage • Increased over border demand from Botswana and Mozambique • Sappl expansion
Total			79.1	

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2.3 Investment history and locomotive fleet run-out in GFB

Overview

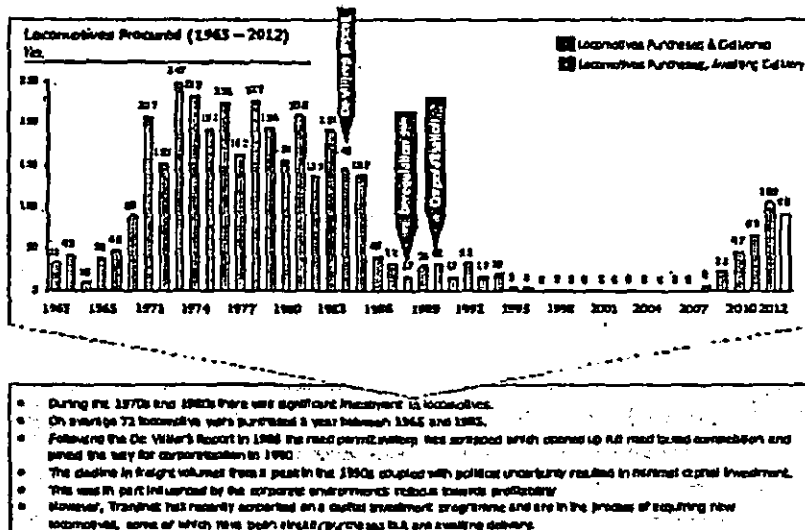
This section demonstrates that the current fleet is incapable of meeting demand. Half the fleet will need to be retired within 10 years and nearly the entire fleet within 20 years.

Investment history

TFR is generally considered to be under capitalised with an aging infrastructure unable to deliver and consequently hampering South Africa's economic growth. TFR has three distinct areas of operations, namely General Freight, Coal Export and Iron Ore Export. The Coal and Iron Ore Export operations are ring-fenced operations with assets dedicated to a single commodity. Since 2004/05, they have been upgraded and expanded to take advantage of the commodity boom. By contrast, little has been spent on General Freight since 1992, as can be seen in the next exhibit.

EXHIBIT 6

The decline in general freight volumes, political uncertainty and corporatisation of rail led to a significant fall in investment



Source: Transnet, Transnet Locomotive Modernisation Report - December 2010

Remedial actions to mitigate locomotive run-out

The expected useful life of a locomotive is 30 years with a full mid-life intervention at approximately 16 to 18 years, which is part of the normal life cycle of the locomotive. The average age of the TFR General Freight Locomotives is 32 years and current programs have extended the life of the workhorse locomotives to a maximum of 45 years. All the locomotives that were suitable for life extending interventions have already been targeted and the remaining locomotives are technologically incompatible.

Locomotive mid-life interventions are part of the normal life-cycle process to achieve the design life of a locomotive. The mechanical components have a life of 30 years but the electrical and electronic

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components and systems have a shorter life based on natural degradation and the rapid evolution of control technology. Electrical spares generally have a ten year guaranteed availability after which they become obsolete and often unavailable. Component replacement within the design life of a locomotive is not life extending but part of the planned total cost of ownership.

However, although Transnet policy assumes a locomotive lifecycle of 30 years, two primary strategies were adopted to mitigate locomotive run-outs and extend the useful locomotive life to 45 years.

The first implementation was to upgrade the workhorse 6E series of locomotives to the 18E series through a partial redesign, a rebuild and upgrade of components, and the replacement of the electro-mechanical control system with an electronic control system. These upgrades improved locomotive output from 170kN to 200kN and extended locomotive life by 15 years. The first of the upgraded locomotives will run out in 2017/18.

The second implementation was an upgrade program to the class 34D and 37D locomotives supplied by General Electric (GE) and General Motors (GM). These upgrade programs comprise a mix of extensive routine maintenance, rewiring and partial body repair. The differentiating upgrade feature is replacing the outdated and obsolete control systems with state of the art electronic control systems which improve control and prevent driver abuse. By analogy, it can be compared to traction control on a modern motor car that prevents wheel spin.

The Impact of undercapitalisation on locomotive performance

The extension to 45 years was a consequence of not being able to afford new locomotives at the time and was not a formal restatement of policy; given the low investment in GFB. By extending a locomotive's life to 45 years, TFR has suffered higher faults per million kilometres, lower gross tonne kilometres, and substantially higher maintenance costs. This has decreased customer satisfaction, leading to a shift from rail to road, increased the Total Cost of Ownership (TCO) of locomotives and reduced TFR's ROA.

Life extension programmes normally range from 10 to 15 years. Beyond the 15-year period the technology becomes outdated. Although refurbishment options may seem cost-effective on the surface, as the life of a locomotive is extended, failures increase. As locomotives age, maintenance becomes increasingly difficult. Spares become difficult to obtain because of shrinking markets and outdated technologies. There are also fewer skills to maintain dated technologies, as newer entrants are unwilling to skill themselves on previous technologies. These operational inefficiencies and failure rates have compromised TFR's ability to increase its volumes and have contributed to a rail-to-road shift.

Lease vs. buy

For leasing to be an effective option, there should be a viable and readily accessible market for leased locomotives. This is not the case for Transnet and South Africa.

South Africa is almost unique in the world with its narrow meter gauge (as opposed to standard gauge) 3kV electrification network. There is only one other railway (in India) with similar infrastructure. Because of this, all the electric locomotives for South Africa have been bespoke designs.

There is an international market for diesel locomotives, but for South Africa this is moderated by distance from those markets and the metre gauge, which requires shipping and change of the bogies to

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accommodate the wider standard gauge. There is a limited Africa market but this is again moderated by the infrastructure limitation of 15 tonnes per axle.

Without a viable second hand market, the lessor would price the long term risk into the leasing costs resulting in higher net costs for TFR.

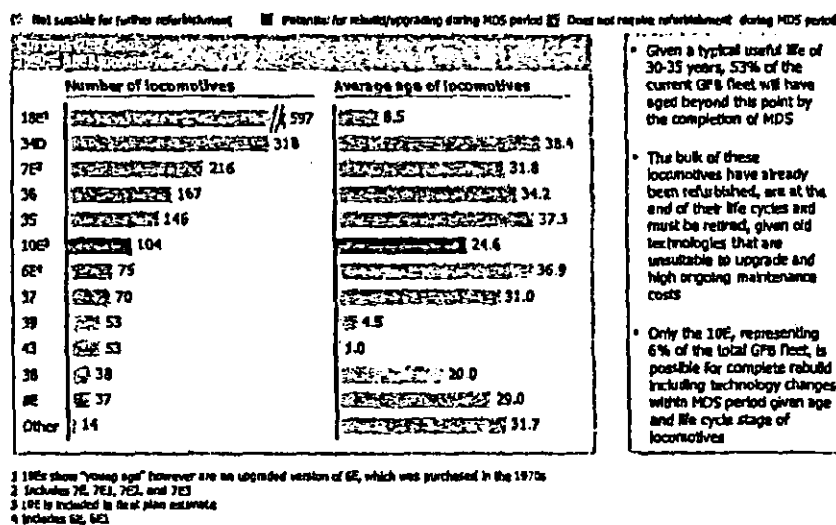
Implication for Transnet

Purchasing new locomotives would allow TFR to depreciate its costs over a 30-year useful life. More importantly, due to the increased reliability that new locomotives provide, Transnet would be able to significantly increase the volumes it transports. This would drive substantially higher ROA for the business.

Leasing is not an option and through past refurbishment strategies, *TFR has exhausted almost all meaningful rebuild opportunities*. Thus, even if it were decided to extend the life of current assets once again (and suffer continued operational inefficiencies and lower ROA), TFR would not be able to do so. The next exhibit shows life extension options are limited to 6 percent of the fleet, as the aged locomotives have gone through extensive refurbishment over time to a point where they can no longer be refurbished. Even the "young" locomotives in the fleet are refurbished versions of older models. For example, although the 18E is listed at an average age of 8.5 years, it is, in reality, an upgraded version of the 6E, a locomotive that was purchased in the 1970s.

EXHIBIT 7

The current GFB fleet is aged – life extending options have been exhausted – only 6% targeted for a complete rebuild

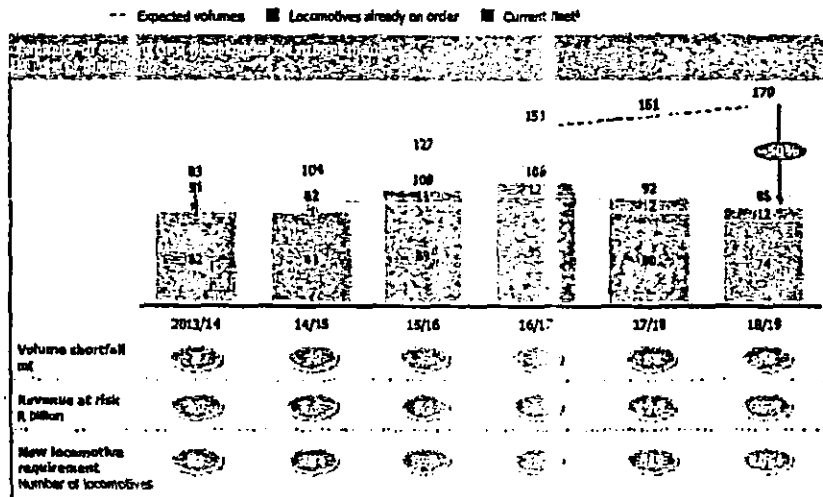


Conclusion: TFR will experience a R73 billion revenue shortfall if the procurement option is not exercised. The next exhibit shows that, unless new locomotives are purchased, the fleet will lose 85million tonnes per annum in capacity by 2018/19.

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EXHIBIT 8

Given the current trajectory of TFR's fleet run-out plan, cumulative revenues of R73bn will be at risk by the end of MDS in 2019, with further revenue at risk thereafter



1. Includes cascading from Export Ore and Export Coal fleet to GFB

3. Proposed solution

3.1 Overview

To meet the fleet requirements necessary to support the MDS volumes, TFR needs to procure 1064 new locomotives. However, flexibility must be built into procurement to account for two factors – demand fluctuations and operational efficiencies captured – that will ultimately affect the timing of locomotive requirements.

3.2 Locomotives required to service market demand

TFR's Locomotive Fleet Plan was presented to the Transnet Board in April 2011 and was approved. This plan provided details on the fleet's composition; how it would run-out subject to the availability of funding; the locomotive upgrades; and the new locomotives required to achieve volumes of 110 million tonnes per annum. Since then, the plan has been updated to reflect the fleet GFB requires to meet the revised MDS volumes, which ramp up from 82.6 million tonnes in 2012/2013, to 127 million tonnes in 2015/16, to 170 million tonnes in 2018/19.

The plan's key objectives are to:

- Maintain and expand current capacity to meet the increasing demand:
 - New locomotives required to sustain the current fleet.

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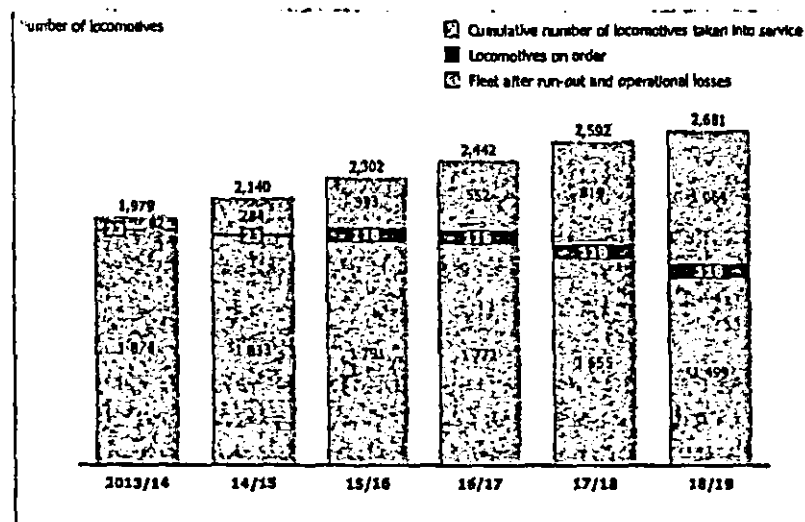
- New locomotives required to deliver the increase in volumes.
- Standardise the fleet to resolve both operational and maintenance difficulties – such as training drivers, planning route designs, and maintaining locomotives – that arise with a diverse fleet of multiple locomotive types.
- Capture improved operational efficiencies provided by new generation locomotives.

The following exhibit summarises the current and proposed locomotive fleet for general freight up to 2018/19.

The Fleet Plan is Transnet's current estimate of the number of locomotives it will require to meet its MDS commitments.

EXHIBIT 9

Locomotives required according to fleet plan



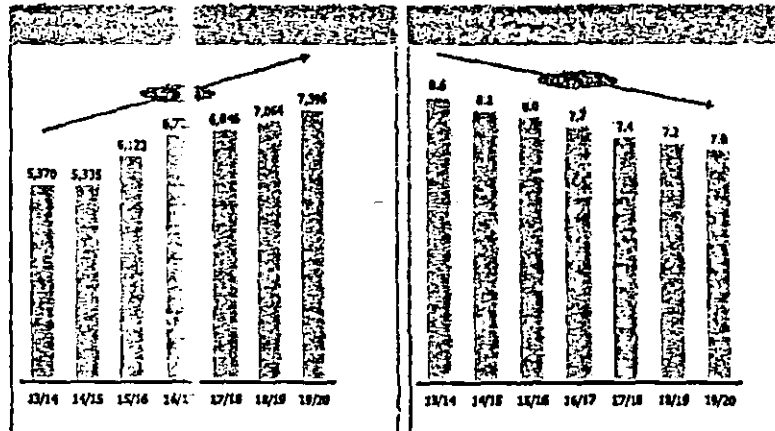
3.2.1 New locomotive procurement

New locomotive procurement is a catalyst to unlock this demand through standardisation which increases flexibility to deliver increased operational efficiencies. This will increase customer satisfaction and enable the shift from road to rail. For example, the exhibit below shows how locomotive efficiency and wagon turnaround times would improve with a renewed fleet. Refer note below.

However, the ultimate number of locomotives needed could change over time depending on the operational efficiencies captured and volumes realised.

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EXHIBIT 10

Improved operational performance and increased customer satisfaction from the upgraded fleet

SOURCE: 2013/2014 Transnet Corporate Plan

The increase in locomotive efficiency is based on three factors; firstly, an inherent improvement in utilisation of the current fleet; secondly, in greater tractive effort per locomotive of the proposed procurements; and thirdly, operational flexibility.

Volumes

Increasing volumes during the MDS period are a primary driver of locomotive requirements. However, Transnet's ability to meet the targets set out in the MDS will depend on external market conditions, including the growth of the South African economy and changes in the demand for commodities shipped. Should conditions change (e.g., modifications to Eskom's new build timelines would have a significant impact on domestic coal requirements, and a slowdown in GDP growth would result in fewer containers shipped), locomotive demand will change. As a result, locomotive procurement timelines must be flexible enough to adapt to potential changes in volumes based on macroeconomic and demand conditions.

Operational efficiencies

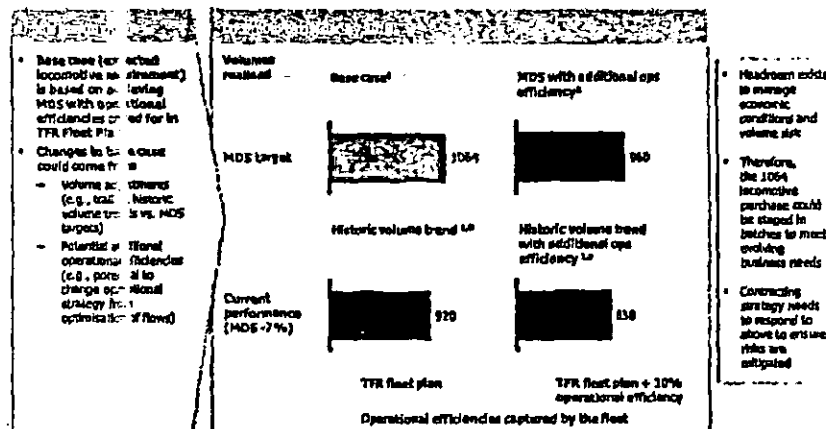
The Fleet Plan will be affected by the operational efficiencies captured from new locomotive technology. The plan takes the position that new locomotives' improved performance will enable operational efficiencies to be captured (e.g., increased availability, reliability and operational flexibility and lower maintenance). Rightly – and conservatively – the Fleet Plan does not estimate unproven potential additional operational efficiencies that could be achieved from optimisation of flows based on the new technologies (e.g., running dual-electric locomotives across routes that previously required multiple changeovers from AC to DC technologies).

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The following exhibit shows how different assumptions of volume and operational efficiency could ultimately lead to different locomotive requirements. Thus, to account for factors that could affect how quickly locomotives are needed, Transnet must pursue a flexible procurement schedule, building in trigger points that will be staged throughout the MDS period.

EXHIBIT 11

The need for 1064 locomotives is determined by the realisation of volumes and operational efficiencies – which informs the procurement strategy



- 1 This incorporates effects from increased availability and reliability, standardisation of the fleet and lower maintenance costs
- 2 Assumes potential additional 10% increase in operational efficiency as a result of a flexible new operating strategy
- 3 Based on 2011-2012: shortfalls vs. MDS of 7.37%

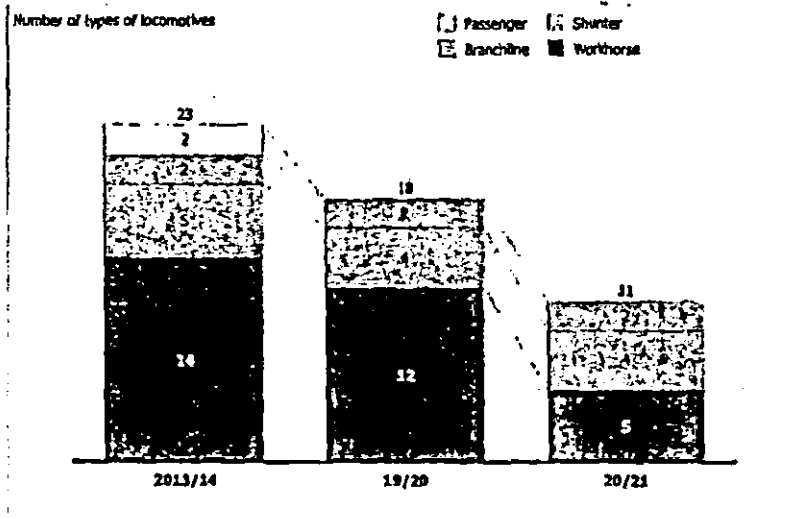
3.3 Impact on locomotive standardisation

The purchase of relatively small numbers of locomotives at a time in the past has resulted in a diverse fleet which in turn has not delivered the benefits of standardisation. The TFR locomotive fleet plan recommends progressive standardisation of the locomotive fleet to enhance interoperability, minimise spares holding and simplify maintenance procedures and driver training. With the imminent run out of the current fleet there will be a natural rationalisation of current locomotive types as depicted in the exhibit below.

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EXHIBIT 12

Procurement of the 1064 locomotives will result in locomotive standardisation, reducing types of locomotives from 23 currently to 11 by 2020/21



While 20/21 is outside the current 7 Year MDS, it reflects the "waterfall" run out of locomotives that lies just outside of the current 7 year MDS. The exhibit is a summary from the General Freight Locomotive fleet plan where the run out of each type and class can be seen. It refers only to GFB and does not reflect the heavy haul classes of the export coal and iron ore lines. Where locomotives are cascaded from the Coal Export Line to General Freight, the classes and types are included.

To prevent further diversification of the fleet, it has been recommended that the electric workhorses and diesel workhorses be procured from no more than two OEMs. In the event that the proposed procurement coincides with a type and class already in use, it will benefit the standardisation program.

3.4 Impact on safety

Aside from the human component, safety on the GFB network will be determined by locomotives, wagons and infrastructure. The procurement of the 1064 locomotives is expected to improve safety in the GFB network. The new locomotives will have the following systems, which will provide safety advancements to the user and TFR:

- Onboard computers (OBC) that will prevent drivers from exceeding speed limits. Some of the locomotives in the current fleet have been fitted with OBC and it shown a proven ability to modify driver behaviour to adhere to speed limits and improve safety.
- Cameras employed as standard equipment which will allow behaviour modification as well as allow TFR to have real time data during any incident that should occur.
- Electronic Brake Rack over the current mechanical brake racks. This will allow for better monitoring and application of brakes.

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- Remote monitoring of locomotives while in operation. This will allow monitoring of the usage of the locomotives and remote pick up of any breaches in application of parameters being exceeded. This will therefore allow behavioural modification and a reduction in abuse of the assets which in turn will bring down unscheduled failures and costs thus providing the evolution in maintenance to Reliability Centred Maintenance.

New wagons will retain existing systems which have been proven to be effective with regards to safety. The planned increase in the axle load of the core network (See Network standardisation- section C6) will also improve the structural integrity of the network.

3.5 Role of Transnet Engineering (TE)

Rolling stock covers a range of asset classes used by railways for specific purposes, including wagons and locomotives. TE is already competitive in wagon manufacture and the procurement of 1064 locomotives could position it for similar competitiveness in locomotive manufacture.

At the base level, South Africa has remained competitive in the production of wagons, which retain very high levels of local content. Local manufacturers such as TE continue to hold dominant market positions in this space and export to customers outside SA. In addition, they behave very much as OEMs through their understanding of the technology and design requirements of this type of rolling stock. In recent years, TE has developed capabilities in more complex forms of rolling stock such as locomotive assembly and associated component assembly and manufacture. Various other players in the private sector have also benefited from recent purchases of locomotives through the Competitive Supplier Development Programme (CSDP) driven by Transnet.

TE currently does locomotive maintenance for TFR. However, the purchase of 1064 locomotives by TFR could create an additional opportunity for TE to play a strategic role in design, integration and supplier development of locomotives in addition to its expected role in maintenance. This could elevate TE beyond the assembly function to hold a more strategic position in the future development of locomotive technologies and enhanced maintenance capability as shown in exhibit 12. However this opportunity is subject to competitive bidding against other local suppliers.

Scope of work for TE

There are two categories of local work that emerge from the 1064 locomotive tender where TE could be strategically repositioned:

- Development of locomotive technologies and capabilities in integrated design and control system design and the adaptation of these systems to local operating environments.
- Development and design of high-value complex components and alignment of maintenance regimes to best serve the needs of Transnet Freight Rail as the operator of these assets.

The drive to localise a considerable portion of a locomotive would be undertaken to competitively position local private sector suppliers, particularly those demonstrating strong B-BBEE credentials. Thus, whilst Transnet would seek to empower TE strategically and as an integrator and assembler of locomotives, the majority of lower tier supply would be outsourced competitively to competent local manufactures.

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The main focus for TE lies in the area of final assembly of the locomotive, development of important sub systems and integration of the locomotive control systems. This additional scope of work would provide TE with additional skills in ongoing locomotive maintenance and the feedback from the maintenance programmes associated with existing locomotives would provide valuable insights into the design and manufacture of the various sub-assemblies and components that make up the new diesel and electric locomotives.

Although TE is strategically positioned to play a dominant role in these areas it would do so under the custodianship/leadership of the locomotive OEM selected to provide the diesel and electric locomotive contracts. In addition, providing this scope of work would require integrating the supply base from both local private sector specialist firms and global specialists in each respective area. This would open up considerable scope for local manufactures to play a role in conjunction with the locomotive OEM and TE in elevating South Africa's manufacturing capability in each of these areas.

Opportunities for private sector in local content

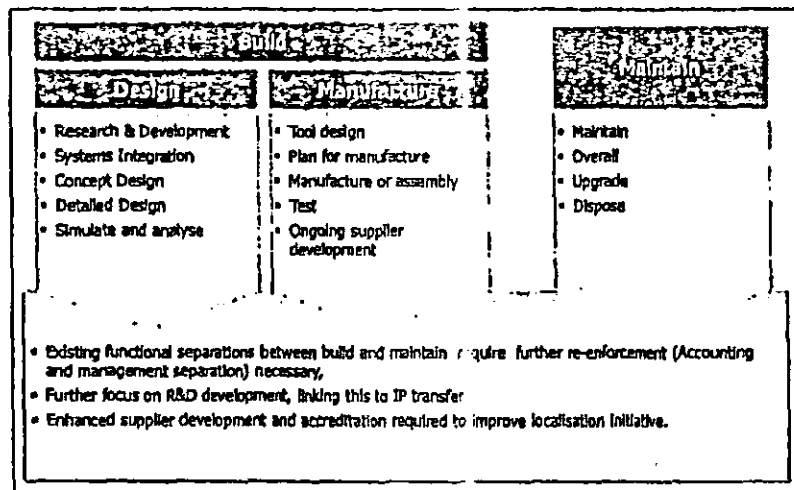
Transnet Engineering (TE) must obtain certain skills through the approach described above in order to reposition itself strategically.

Transnet's detailed component analysis is based a market related costs structure informed by the bills of materials used in assembly and maintenance of various locomotive components. It thus closely emulates current market pricing within the locomotive market.

The analysis identifies certain areas of expertise and components where Transnet Engineering will be strategically positioned, as well as scope of work and expertise that will directly benefit South African private sector manufacturers.

EXHIBIT 13

Greater specialisation and focus by splitting Build and Maintain functions within Transnet Engineering



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Impact of the new deployment plan on TE

Locomotive deployment is never static and changes dynamically in accordance with commodity and market requirements. It is also influenced by standardisation of maintenance facilities and crew trained in operating a particular type of locomotive. The proposed new locomotives are however specified to enhance standardisation and be deployed over the entire core network with the exception of diesels going through long tunnels.

The new deployment plan will also significantly alter the way TE operates. It will have an impact on:

- **Locomotive maintenance strategy and practices.** The new locomotives will have added features that will reduce maintenance and increase reliability, requiring a contemporary maintenance regime to exploit these features. For example, the Class 34 diesels generally have a 28-day intervention where the locomotive travels to a depot, with major interventions taking place at specific depots. The new Class 43 diesels, however, have a service interval of 90 days that can possibly be extended to 180 days. Where an intervention may be required between service intervals, this would entail the technician coming to the locomotive rather than the locomotive going to the depot. As TFR improves its efficiencies, it will result in lower downtime and increased availability of locomotives.
- **Maintenance technologies.** New maintenance technologies are anticipated, include:
 - **LCMS.** A Locomotive Control Monitoring System continuously reports the locomotive status to a central Locomotive Control, helping achieve optimum locomotive utilisation.
 - **Acoustic Bearing Monitor.** This wayside equipment acoustically monitors the rolling stock bearings as they pass the wayside station, analysing the bearing "noise signature" for signs of failure. The signature provides sufficient warning that the locomotive can be diverted to a depot for bearing replacement in a timely fashion. This extracts the maximum possible life out of the bearing as opposed to the conservative time-centred replacement that is the current practice.
- **Skills and staffing.** The skills needed will change from a mechanical maintenance paradigm (electrical and diesel fitter) to one of an electronic diagnostician. Should this change not be contextualised and internalised and old maintenance practices continue, reliability and availability will be compromised and locomotive life will be lessened. Although maintenance staffing requirements will be reduced, potential exists to reallocate these resources to build-based activities.
- **Depot evaluation.** Current, older locomotives must be serviced for several weeks at a time. Even for some of the heaviest maintenance, a new locomotive is expected to be in a workshop for no more than 72 to 96 hours. This will bring about a shift in the way TE conducts maintenance operations. Today, Transnet has over 130 locations throughout the country. In the future, TE will require a smaller number of very large super-depots that can handle a range of activities, including all types of major component exchange for both diesel and electric locomotives. Additional smaller facilities will still be required for servicing, fuelling, preparation, and vehicle recovery in case of breakdown.

See the Supporting Documentation section ES (Deployment Plan) for more detail on TE's new maintenance philosophy and proposed changes.

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3.6 Other benefits to South Africa

Lower costs of transportation

As described in the Business Needs Section, a more efficient and reliable fleet will support the transition from road to rail, which is typically more cost-effective for transporting goods more than 300 kilometres. This shift will lower infrastructure repair costs (given the damage to roads from the current trucking of commodities like coal) and contribute towards a reduction in road traffic fatalities.

Lower costs of emissions per tonne

Modern locomotive technologies will also result in energy savings – (8- 10% lower consumption for diesels and 18% energy savings for electrics) given manufacturer insights and internal studies conducted. Therefore, this will result in savings of over 31,000⁴ tonnes of CO₂ and R5⁵ million per year by 2018/19 for diesel locomotives and potential additional savings in electrics. Today's diesel fleet is more than 30 years old and therefore not emission-efficient. The electric locomotives, which haul approximately 86 percent of the total gross tonne kilometres moved per annum, are not considered heavy polluters. However, given the coal pollution from Eskom electricity generation, total emissions attributable to the locomotives are higher. The new electricity-increased energy efficiency would lessen their environmental impact, as well as the demand on the power grid.

Although meeting Transnet's MDS targets would naturally entail increased locomotive use – and thus increased emissions – the new locomotives' greater energy efficiency will help offset this. The new diesels and electrics would, at a minimum, meet United States Environmental Protection Agency Tier 3 and Tier 4 standards when they come into effect. For diesels, the new locomotives are expected to be 10 percent more efficient in energy conversion than current diesels. In electrics, the Ore Line 9E and the new 15E series are at least 18 percent more efficient in energy conversion. A similar improvement is expected in the new general freight electric workhorse with AC traction motors that will replace the 18E series with DC traction motors.

4. Detailed analysis of recommended option

4.1 Financial analysis overview

4.1.1 Overview

The capital expenditure for the 1064 locomotive procurement transaction is expected to be R38.6 billion, assuming current exchange rate assumptions hold. Using TFR's hurdle rate of 18.56 percent, the NPV of the transaction is R2.7 billion; applying TFR's WACC of 12.56%, would increase the NPV to R34.1 billion. The following sections describe the approach used to calculate the NPV and expected capital expenditure.

4.1.2 Base case NPV

Key assumptions into this base case NPV calculation are in the exhibit below.

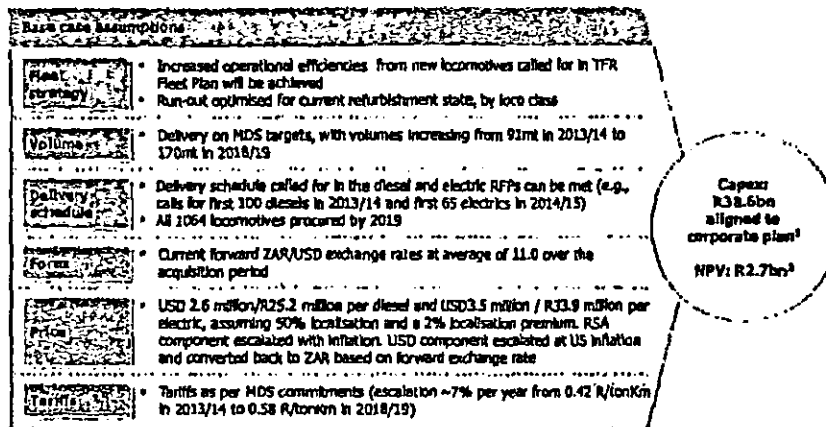
⁴ Savings over the current locomotive emissions per MGTK

⁵ Given the expected tariff structure from 2015

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EXHIBIT 14

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



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

4.1.3 Fleet plan versus RFP delivery timelines

The number of locomotives required to deliver MDS is based on TFR's Fleet Plan and planned run-out strategy. It is based on the assumption that TFR will capture operational efficiencies from new locomotives (e.g., increased availability, reliability and operational flexibility, lower maintenance costs). This fleet requirement is also driven by volumes, which are assumed to be TFR's MDS targets for GFB.

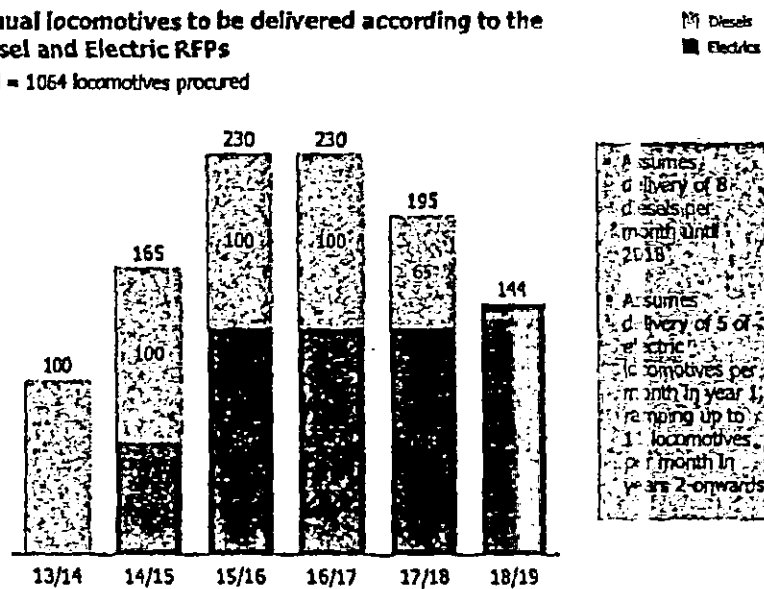
The 465 diesel and 599 electric RFP delivery timelines, which are currently in the market, were used to understand the timing of the locomotives. The exhibit below details the locomotive delivery timelines that were modelled as per the RFPs and used as the base case assumption.

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EXHIBIT 15

Annual locomotives to be delivered according to the Diesel and Electric RFPs

Total = 1064 locomotives procured



4.2 Approach to revenue calculations

Revenues were calculated based on the incremental volumes attributed to the 1064 procured locomotives and the average forecasted GFB tariffs from the MDS 2012/13. Volumes to be attributed to the 1064 locomotives were calculated using a bottom-up approach, which used historical GFB productivity (million gross tonne kilometres, MGTK) for each of the locomotive types and the number of locomotives within each type aggregated to a fleet level productivity capacity. The incremental volumes for the 1064 procured locomotives were calculated on the difference between the capacity required to achieve the MDS and the existing fleet capacity, subject to the maximum capacity of the procured locomotives.

Bottom-up volume calculations based on locomotive productivity

The total MGTK was transformed into net tonnes volumes using a historical GTK/NTK ratio and forecasted average distance using the MDS forecasts. Locomotive productivity assumptions for locomotives without an applicable historical productivity were based on similar locomotive types within the fleet. The productivity estimates for the new procured locomotives were based on the historical average productivity levels achieved by the TFR fleet. The existing fleet breakdown and productivity for 2013/14 is detailed in the exhibit below.

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EXHIBIT 16

Existing fleet GFB at 2013/14

Fleet type	Number of locos	GTKm per loco	Cumulative GTKM
6E	75	33	2 507
7E	58	130	7 520
7E1	48	107	5 137
7E2	45	94	4 217
7E3	65	98	6 351
8E	37	1	19
10E	104	133	13 795
14E	8	41	330
18E	597	57	34 026
33D	5	8	38
34D	318	24	7 689
35D	146	7	1 006
36D	167	1	244
37D	70	20	1 372
38D	38	22	827
39D	53	54	2 852
43D	55	80	4 395
Total	1 889	49	92 324

Volume capacity was calculated and split across three different categories:

- TFR fleet requirement capacity (based on TFR fleet requirements, Supporting Documentation Section E4-7-Year Locomotive Requirement).
- Existing TFR fleet capacity (based on the TFR fleet run-out schedule and expected locomotives on order, Supporting Documentation Section E2 -General Fleet Runout).
- 1064 procured locomotives capacity (based on the procurement assumptions above).

The incremental volumes for the 1064 procured locomotives were calculated on the difference between the capacity required to achieve the MDS and the existing fleet capacity, subject to the maximum capacity of the procured locomotives. The existing fleet capacity also accounts for lost capacity due to locomotive write-offs due to incidents, with 7 diesels and 8 electric locomotives assumed to be written off each year. The productivity lost was based on average locomotive productivity for diesel and electric locomotives.

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EXHIBIT 17

Productivity MGTK (2013/14 to 2018/19)						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
MDS required capacity	86,401	98,479	120,811	138,409	148,467	158,434
Existing fleet capacity	79,403	79,697	98,478	101,730	90,848	86,130
Written-off (lost) capacity	1,101	2,201	3,302	4,446	5,591	6,736
Required capacity	8,099	20,983	25,634	41,126	63,211	79,040

Translation into volumes required

The aforementioned required capacity amount is converted into required net tonnes based on the average distance travelled for GFB traffic and the historical ratio of GTK to NTK.

The table below represents the incremental volumes attributed to the 1064 locomotives. TFR experience a large volume shortfall in the first 3 years due to DC locomotive shortfalls. Without planned mitigation strategies, this shortfall will persist till 2018/19 given that TFR fleet requirements are assessed as of the beginning of the fiscal year but locomotives would be delivered throughout the year (e.g., in 2018/19, 1064 locomotives are required at the start of the year, but the 1064th locomotive will only be expected later that year). Refer to Section 5 on Risks for a description of TFR's planned mitigation strategy.

These volumes can be combined with the expected tariffs for GFB during the MDS period, as per the exhibit below:

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EXHIBIT 18

Volumes (net tonnes)						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
MDS target	91	104	127	151	161	170
Existing fleet	83	82	100	106	92	85
1064 locomotives	1	7	21	41	60	77
Volume shortfall	7	15	6	4	9	8

As per the exhibit below, putting volumes and tariffs together yields a view of revenues – MDS targets, revenues allocated to the existing fleet, revenues derived from the new locomotives, and potential shortfalls.

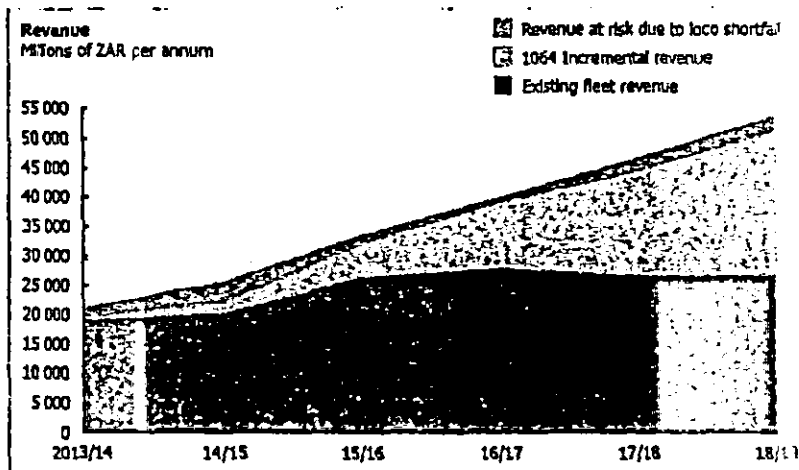
EXHIBIT 19

GFB tariff average (R/Net tonKm)						
2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
0.42	0.45	0.48	0.50	0.54	0.58	

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EXHIBIT 20

The 1064 locomotives are instrumental in capturing MDS target revenues, but a revenue shortfall will persist due to procurement timelines lagging target demand



4.3 Approach to cost calculations

Cost schedules were calculated for the entire life cycle of the 1064 fleet split into the categories listed below, including: a) Total cost of ownership (TCO); and b) capital and other costs, including wagon cost, infrastructure cost, overheads, and tax.

4.3.1 Total cost of ownership of new locomotives

The TCO of locomotives was calculated using bottom up analysis and expert input and has the following components:

- Purchase price.** As mentioned above, the purchase price is assumed to be R25 million (US \$2.6 million) for a diesel locomotive and R34 million (US \$3.5 million) for an electric locomotive in 2013/14. The purchase price of both diesel and electric locomotives assumes a conservative 50 percent localisation component with a 2 percent localisation premium applied. The localisation component ramps up over time. The USD price component was forecasted by escalating at USD inflation and converting back to ZAR using forward ZAR/USD hedge rates. The local price component was escalated at South African PPI. Refer to Exhibit 21 for the TCO breakdown and Exhibit 22 for the purchase price cost breakdown. An important consideration in the negotiation of the purchase price is the amortisation of the development costs over the quantity ordered demonstrated in Exhibit 23. The analysis indicates that the procurement order quantity for the 1064 locomotives will significantly reduce the development costs component of the locomotive price and has been factored into determine the price estimates.

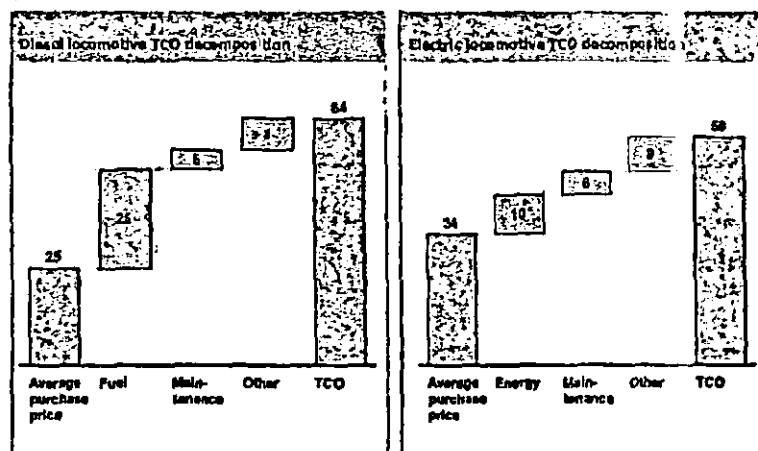
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- **Diesel costs.** The diesel costs for the 465 locomotives were based on the GTK of the locomotives and diesel consumption per GTK. Prices were escalated from a 2013/14 price of R11 per litre escalated at R/USD forward rate percentage change and US inflation.
- **Electricity costs.** The electricity costs for the 599 locomotives were based on the GTK of the locomotives and consumption per GTK. Electricity costs were escalated at forecasted Eskom tariff rate increases of 8 percent up to 2017/18 and an average of forecasted CPI and PPI thereafter.
- **Maintenance costs.** Expected maintenance cycles over the lifecycle of locomotives were calculated. The cash flow profiles for diesel and electric locomotives are presented in Exhibit 24.
- **Insurance.** Assumes an expected wreck cost per year escalated at the average of CPI and PPI.

EXHIBIT 21

Electric locomotives have a lower TCO than diesels, but their upfront cost is higher than diesel locos

ZAR, millions



SOURCE: Transnet 1064 Loco Business Case, Expert Interviews

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EXHIBIT 22

Development costs are the largest components of total capital cost of both diesel and electric locomotives

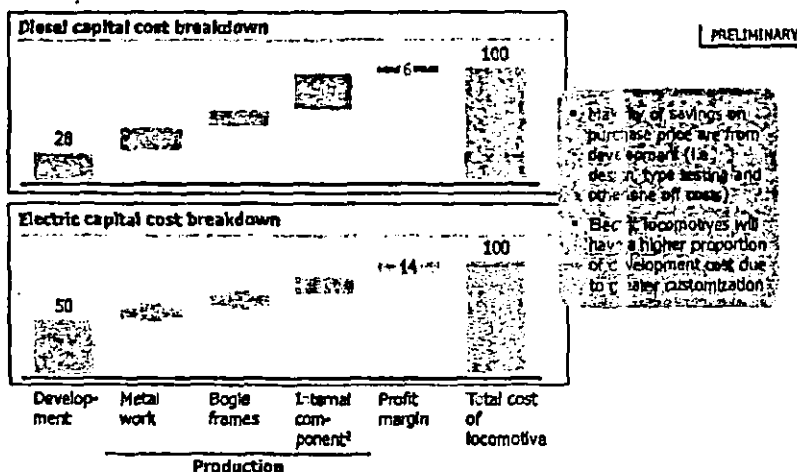
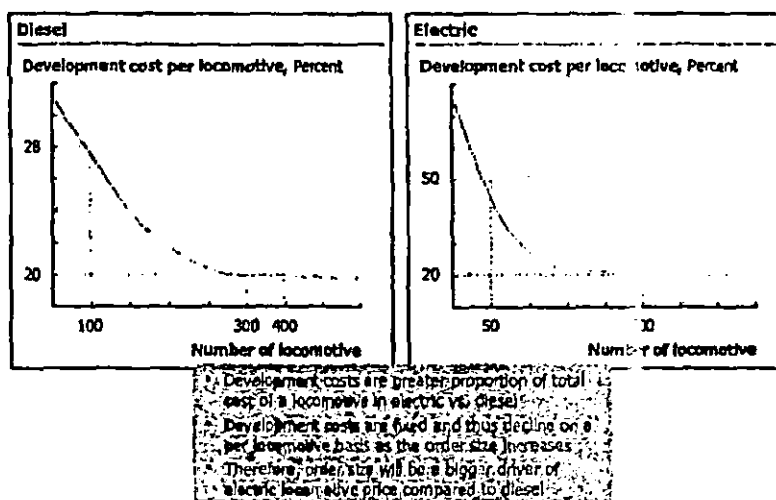


EXHIBIT 23

Electric locomotive price is more sensitive to order size than diesel locomotives

PRELIMINARY

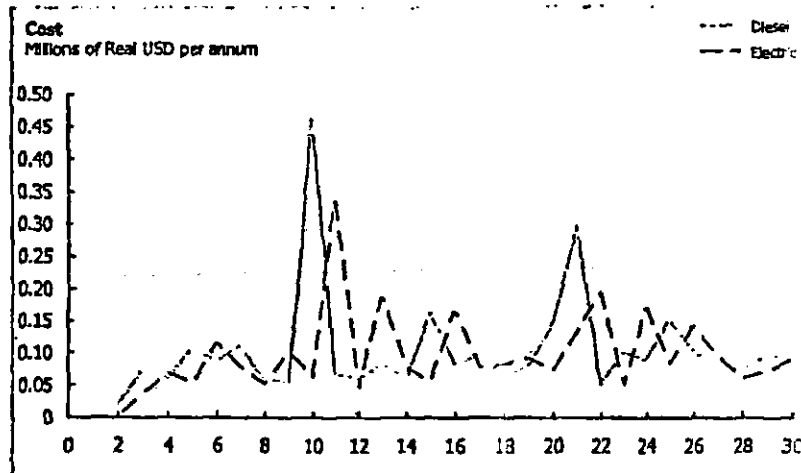


SOURCE: Source

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EXHIBIT 24

Maintenance TCO for Diesel and Electric locomotives for a 30 year lifecycle



4.3.2 Capital and other costs

Capital cost outflows for the procured locomotives have been structured with a conservative payment strategy of 90 percent of the locomotive purchase is paid on delivery of the locomotive and 10 percent on acceptance. Upfront costs of R250 million for diesel locomotives and R300 million for electric locomotives will be paid on signing the supplier contract and will offset against the cost of the first batch purchased. The purchase price of both diesel and electric locomotives assumes a 50 percent localisation component, with a 2 percent localisation premium applied.

In addition to modelling the capital costs for locomotives to be procured for the 1064, associated wagon and infrastructure costs have been allocated as per the 2013 Transnet Corporate Plan – the exhibit below shows the capital costs for diesel and electric locomotives, wagons, and infrastructure.

EXHIBIT 25

Capital expenditure schedule								
Rm Cashflow	PV	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Diesels	8 314	2 433	2 552	2 709	2 881	2 064	0	0
Electrics	12 252	300	1 860	4 665	5 042	5 360	6 284	217
Wagon capex	10 017	3 022	3 417	3 462	3 228	2 559	649	0
Wagon copex	1 583	3	23	70	151	242	339	420
Infra capex	9 513	1 026	2 787	3 379	3 023	3 092	4 967	0
Infra copex	8 978	60	384	795	1 249	1 627	1 837	2 253
Total	50 656	6 844	11 023	15 079	15 575	14 944	14 075	2 890

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- **Wagon costs:** Costs were calculated based on the expansionary number of wagons required to achieve 170 million tonnes (16,459 wagons) based on the proposed capex budget in the Supporting Documentation Section E12 (Wagon Requirements). Opex and copex costs are incurred according to incremental volumes moved.
- **Infrastructure costs.** Costs were calculated using the total required expansionary GFB infrastructure to deliver 170 million tonnes based on the latest corporate plan. Infrastructure copex costs are incurred according to incremental volumes moved.
- **Overhead costs.** GFB overhead costs were calculated using actual 2011/12 TFR overhead costs allocated according to the ratio of GFB personnel to total TFR personnel. Procured 1064 overhead costs were allocated from the GFB overhead costs on the ratio of 1064 incremental volumes to GFB volume required.
- **Tax costs.** Tax costs were based on an assumed tax rate of 28 percent and calculated against net cash flows (revenues – costs) and adjusted for capital cost distributions of locomotive, wagons, and infrastructure expansion. The capital costs for locomotives and wagons were depreciated over 5 years since the purchase date and infrastructure has been depreciated over 30 years. Tax credit income has been included as a cash inflow in the following year of accrual.

4.4 Breakeven points for NPV: volumes and tariffs

The business case proves to be neutral at the following volumes and tariffs:

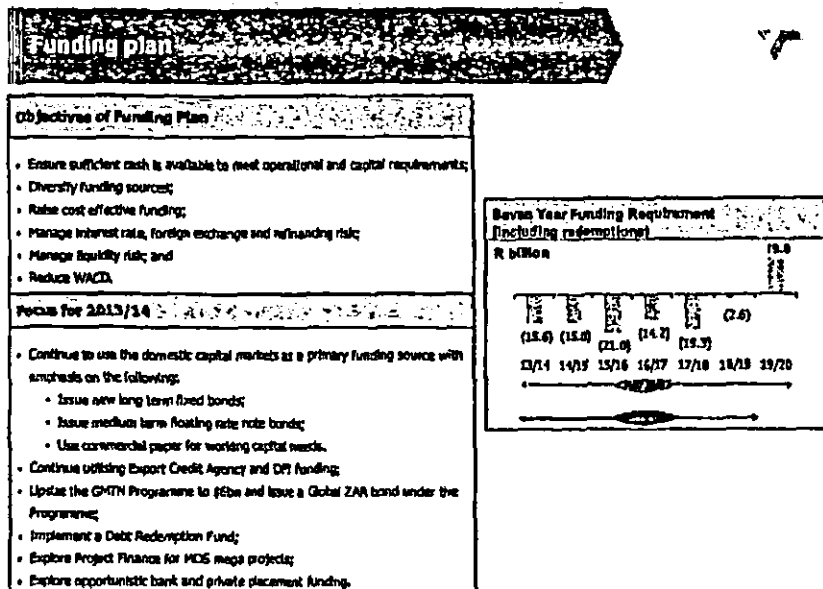
- **Volume (everything else fixed).** CAGR of 11.7 percent from 2013/14 to 2018/19 (160 mt p.a. realised in 2018/19 vs. 170 mt p.a. as per MDS), which is below the MDS target of 13.3 percent.
- **Tariffs (everything else fixed).** CAGR of 6.1 percent from 2013/14 to 2018/19, which falls directly between CPI (5.6 percent) and the MDS target (6.6 percent).

5. Treasury Considerations

The acquisition of 1064 locomotives will cost R38.6 billion and has been included in the overall MDS funding amount of R86.5 billion over the next 6 years. Consequently, the funding options will include those in the borrowing plan as contained in the approved Transnet Corporate Plan 2013/2014. A mixture of cash generated by operations and external borrowing will be used to fund the acquisition. Two-thirds are assumed to be financed using cash generated by operations, and about R13 billion will need to be raised externally. The external funding will be raised utilising both the Global Medium Term Note programme for dollar funding and established domestic sources for Rand funding – e.g., the Domestic Medium Term Note programme. In addition, options like development finance institutions (DFIs) and export credit agencies (ECAs) will be considered to lower the cost of funding.

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EXHIBIT 26



PAGE 1

The planned new fleet is estimated to cost R38.6 billion using escalated calendar year 2013 prices. The acquisition of the 1064 locomotives will be funded using a mixture of cash generated by operations and external borrowings. Assuming that two-thirds will be financed using cash generated by operations, about R13 billion will need to be raised externally.

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5.1 Funding options

EXHIBIT 27: POTENTIAL FUNDING SOURCES FOR MDS

Potential Funding sources			
	Available facilities	Expected drawdowns 2013/14	
Development Finance Institutions (DFIs)			Transnet will further explore new funding solutions, investors and markets such as: - Issuing bonds in other markets (Yen; US Dollar; Euro; Australian Dollar; Swiss Franc; Subsidised markets). The cost of the possible funding to be raised will be evaluated relative to Rand funding. - Issuing a Global ZAR Bond in the international debt capital markets; - Project bonds and project finance; - Extending the duration of Transnet's existing domestic bonds, as well as the issuance of new types of bonds for purposes of building Transnet's yield curve; and - Expand Development Finance Institution (DFIs) and Export Credit Agency (ECA) financing, thereby further diversifying Transnet's funding sources.
Africa Development Bank & loan	R1,7 billion	R1,7 billion	
Export Credit Agency (ECAs)			
US Exim Finance 2	R1,3 billion	R1,3 billion	
Global Medium-term Note (DMTN)			
Available under the DMTN Programme ¹ US\$250 million	(R2 billion)	R2 billion	
Domestic Medium-term Note (DMTN)			
Available under the DMTN Programme (Commercial Paper (CP) and Bonds)	R22,5 billion		
• Available for bond issuance		R4,4 billion	
• Available for CP issuance		R3,2 billion	
Bank loans (Concessional loans)		R1,8 billion	
DFIs/ECAs		R1,8 billion	
Committed facilities available within 24 hour notice	R5,0 billion		
Total	R33,8 billion	R35,6 billion	

¹ The DMTN will be updated to US\$1 billion to 2012/13, allowing for more capacity under the Programme.

Based on the above, Transnet's ability to meet its short and long-term funding requirements is adequate and will not impact the going concern financial position of the Company.

EXHIBIT 28

Amount in R billions	13/14	14/15	15/16	16/17	17/18	18/19	19/20	Total expenditure
Diesel locomotives - 465	2.43	2.55	2.71	2.89	2.06	-	-	12.63
Electric locomotives- 599	0.30	1.86	4.67	5.04	5.36	6.28	0.22	23.73
Locomotive contingency	0.17	0.27	0.45	0.49	0.46	0.39	0.01	2.24
Total	2.90	4.68	7.83	8.41	7.88	6.67	0.23	38.60

5.1.1 Funding risks

The fleet cost is based on a set of assumptions including the timing of contracting, ZAR/USD exchange rate, and the mix between local and foreign content, interest rate, volume growth, revenue growth, inflation, operational efficiencies, and steel prices. Any negative movement on the base assumptions exposes TFR to a potential risk. In addition to the abovementioned risks and sensitivities (see Section 7), the following risks and implications need to be closely monitored:

- Implications to funding of actual versus planned cash flows.
- The implications of Basel III on swap costs, terms and conditions of derivative transactions, and availability and quantum of credit lines, monitor ETC and impacts on cash interest cover, gearing and S&P liquidity ratio.

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5.2 Forex risk mitigation

Forex risk mitigation will be imperative for a transaction of this size. A change in the Rand to US dollar exchange rate of 10 percent would represent a R1.2 billion impact based on the amount of localization assumed. Given 15 percent devaluation of the rand against the US dollar over the past year alone, such volatility is not unrealistic. Forward exchange rate projections suggest a devaluation of the Rand versus the US dollar over the next few years.

Transnet's hedging approach

Transnet's preferred option is to enter into Rand based supplier agreements with OEMs, with the hedges undertaken by the OEMs themselves. However, even when hedging is conducted by the OEM, Transnet ultimately pays for the cost of hedging, which is factored into the purchase price. The main advantage of a Rand based supplier agreement is the elimination of volatility in the Group's financials and the non-utilisation of bank credit lines for hedging purposes.

Should Transnet not be in a position to enter into a Rand based agreement, all foreign exchange exposures will have to be hedged as per the Board approved Financial Risk Management Framework (FRMF). It is anticipated that Transnet should be in a position to obtain the necessary credit lines to hedge the FX risk exposures. However, this cannot be guaranteed, as a number of banks will have to be approached to diversify their risk exposures and the banks will have to obtain approval from their respective credit committees. However, there is a risk that the magnitude of this transaction will add pressure to the availability of hedging lines for future MDS requirements.

Long dated hedges as anticipated in this transaction are expensive due to banks' capital requirements. The exhibit below shows Transnet Treasury's view of a ZAR/USD forward curve including the cost of hedging, used in the business case.

EXHIBIT 29

\$R9.13	\$R9.59	\$R10.04	\$R10.52	\$R11.00	\$R11.48	\$R11.98	\$R12.55

Impact of localisation

Localisation of production is a natural hedge. Exposure would increase with lower a lower level of localisation (and, by extension, decrease with a higher level of localisation). The exhibit below shows foreign currency exposure for a 10 percent devaluation scenario to be ~R1.2 billion given 70% localisation of component manufacture. Without any localisation, exposure under this scenario would be ~R4 billion, suggesting a localisation benefit of ~R2.8 billion.

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EXHIBIT 30

	Transnet Freight Rail	Transnet Coal	Transnet Ore
	Additional cost of localisation	Additional cost of localisation	Additional cost of localisation
Assuming a 60% localisation	R15.4 bn	R0.8 bn	R1.5 bn
Assuming a 70% localisation	R11.6 bn	R0.6 bn	R1.2 bn
Assuming a 80% localisation	R7.7 bn	R0.4 bn	R0.8 bn

Thus, hedge accounting will be used to minimise exchange rate volatility on the Group Income statement, but localisation is a critical lever to reduce the ultimate cost of the hedge.

6. Operational readiness

6.1 HR plan

A procurement event of this magnitude will require a significant increase in TFR's workforce. TFR's 7-year human resource requirements are part of a TFR-wide workforce plan as train drivers and assistants are often interchangeable across TFR's businesses. All train personnel are sourced from Transnet's School of Rail.

According to TFR's 7-Year Man Plan (see Section E10) 2012 figures, TFR has a driver shortfall of 529. It is also estimated that over the life of MDS, TFR will require an additional 3 065 drivers above current staffing levels. This need is dependent on delivery against MDS volumes across the GFB, Coal and Ore businesses.

Currently, TFR only has capacity to train on average 500 drivers per year. However, at its peak in 2015-2016, TFR will require an additional 791 drivers. TFR has transitioned from a mandatory Refresher Training every 2 years to a Continuous Professional Learning programme. This will cut training time from 22 days every 2 years at the School of Rail to 6 days every 2 years on site according to best practice as shown in the exhibit below, freeing capacity at the School for additional training of new recruits. This expected reduction in training time is based on a joint exercise done with DB Siyaya and International benchmarking of TFR's methods in conjunction with other railways.

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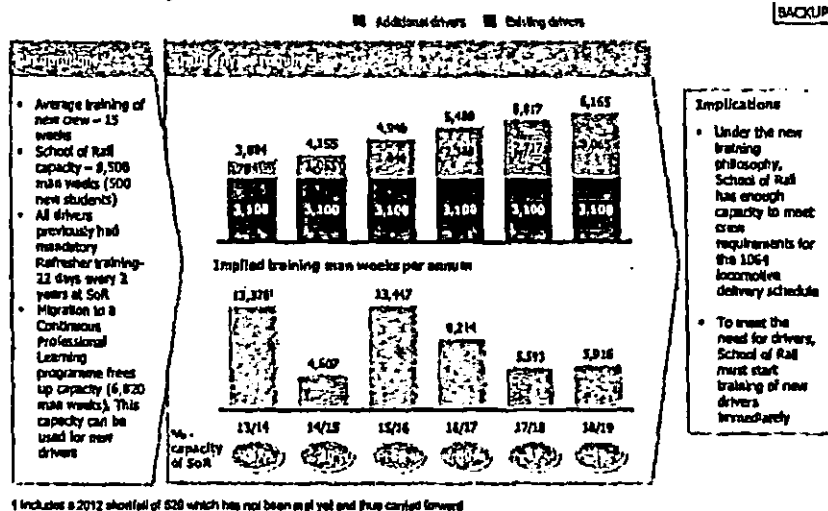
EXHIBIT 31

The new CPL programme will significantly reduce the training time and fee capacity at the School of Rail

	Refresher training	New CPL programme
Length	22	6
Frequency	Once every 2 years	Continuously over 2 years
Location	School of Rail	Operational area
Content	Not sensitive to operational needs	Determined by BU and train
Impact	Does not promote continuous proficiency	Promotes continuous proficiency

EXHIBIT 32

Under the new training philosophy, Transnet's School of Rail can supply enough train drivers and assistants to sustain the 1064 delivery schedule



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The exhibit above shows the drivers required every year over the MDS period, highlighting how many additional drivers need to be trained. It also shows the School's capacity requirements over the period. The new training philosophy will give an additional 6,820 man weeks (80 percent increase) of capacity to the facility, allowing it to meet TFR requirements. However, TFR will need to start training new drivers immediately to close the driver shortfall before the peak demand period in 2015/16. In addition, the one man crew project, if successfully tested, will allow TFR to fast track trained assistants to become train drivers if successfully tested.

6.2 Infrastructure dependencies

To deliver against MDS volumes, the 1064 locomotives must perform as part of a railway system well equipped to move such volumes. Therefore, sustaining and expanding investment in infrastructure and other key projects within the system will be critical to support MDS delivery.

Infrastructure dependencies

Locomotive deployment is tightly mapped to the railway infrastructure and routes. Route characteristics (e.g., power source on route, axle loading capacity, and the presence of long tunnels or tight bends) largely determine the type of locomotive that can be used on a particular route.

As part of the MDS' planned R308 billion spend, TFR will also invest in projects to sustain and expand rail network capacity and footprint. The strategy pursued by the Rail Network over the 9-year planning horizon covers two key strategic focus areas to enable volume growth and systemically improve the safety of operations. Programmes aim to:

- Expand infrastructure, creating capacity ahead of demand. Supporting Information Section E12 (Infrastructure Plans) depicts the current status of the network in terms of axle loading and electrification, respectively, and Section F11 depicts the future status of the network in terms of axle loading and electrification are also depicted in Section E11.
- Sustain existing infrastructure through accelerated maintenance programmes. In addition to the railway network, there are also programmes for the sustenance and expansion of supporting infrastructure. The tables in the Supporting documentation Section E11 are extracted from the TFR Business Plan 2013/14 – 2018/19 and detail both the expansion and the sustaining maintenance programmes for Perway, Electrical, Signalling, and Telecommunications.

The exhibit below shows key strategic projects planned over the 7-year period involving both the extension of the electrified network and the axle loading of specific routes.

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EXHIBIT 33

Key infrastructure programmes will enable the 1064 locomotives' delivery of expected volumes

ZAR, billions		
Rail line section	Total seven year spend (ZAR bn)	Timeline
Eskom and coal line to 91mtpa+	8	2012-2019
Waterberg	5	2012-2020
Ore line to 90mtpa	1	2012-2019
Swazi rail link (SA Portion only)	0	2012-2015
Manganese General Freight 16mtpa	1	2012-2019
Gauteng Freight ring	0	2018-2019
Terminals	0	2012-2018
Maputo link	1	2012-2016
Natcor	0	2013-2017
Grand total	13	

EXHIBIT 34

Expansionary infrastructure expenditure timeline

Bold text = interdependencies with GFB volume expansion

[BACKUP]

Business focus	Preparation for growth (one to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure expansion Power/coal loading	<ul style="list-style-type: none"> Increase axle loading Increase coal line capacity to 81mtpa Eskom 33mtpa project Partial doubling of RCS-Mandeni line Waterberg - Phase 3-5 additional passing loops Manganese 16mtpa (Notasani - Coega) Swazi rail link 13mtpa Increase axle loading on Grootfontein-Hondiusfontein 	<ul style="list-style-type: none"> Increase axle loading Increase coal line capacity to 81mtpa Coal 33mtpa project (including Eskom doubling) Eskom 33mtpa project Colony phase grid & line tripling upgrade Waterberg - Phase 3-5 additional passing loops Manganese 16mtpa (Notasani - Coega) Ore line Phase 2 12.5mtpa Swazi rail link 15 	<ul style="list-style-type: none"> Increase axle loading Overall terminal doubling Coal 33mtpa project (including Eskom doubling) Eskom 33mtpa project Line tripling Grootfontein-Hondiusfontein Swazi rail link 15mtpa Doubling of all critical devices
Infrastructure expansion Electrical	<ul style="list-style-type: none"> Increase electrical capacity on the AC section on the coal line Upgrade section Rustenburg-Mossburg, Manganese 16mtpa New and Upgraded sub-stations and OHT 	<ul style="list-style-type: none"> Manganese 16mtpa One line Phase 2 12.5mtpa power upgrade (incl. of OHT) Increase electrical capacity on the AC section on the coal line Coal 33mtpa project Upgrade sub-stations and electrical equipment Consistent with the conversion of 3kV DC to 25kVAC Ermelo-Pyramid South 	<ul style="list-style-type: none"> Completion of the conversion of 3kV DC to 25kVAC Ermelo-Pyramid South Coal 33mtpa project Eskom 33mtpa project Upgrade sub-stations and electrical equipment Waterberg - Phase 6 (23mtpa) consistent with the electrification of Symababeni-Isipingo Conversion of 3kV DC to 25kVAC on Ermelo-Pyramid South
Infrastructure expansion Signalling	<ul style="list-style-type: none"> Manganese 16mtpa 	<ul style="list-style-type: none"> Pyramid South - Lephalale Communication based authorisation (CBA) pilot installation Manganese 16mtpa 	<ul style="list-style-type: none"> Consistent with the re-signalling of the coal line (CBA)

Considering the existing network capacity and the expectation that these projects will be completed according to plan, network capacity is not seen as a constraint to achieving the MDS targets.

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Network Standardisation

Network standardisation is a long term project extending well beyond the current 7 Year MDS. This project is expected to include increasing axle loading in the core network (that conveys roughly 90% of GFB traffic); extending the 25 kV AC to close gaps in the existing electrification network and replacing the 3kV DC electrification network with the 25 kV AC network in high tonnage corridors as shown in the exhibits above.

Excluding the export iron ore and export coal lines with their 30 and 26 ton per axle loading respectively, the core network for general freight traffic, which has a loading capability of 20 tonnes per axle, conveys more than 90% of the general freight traffic. This core network will be enhanced to 26 tonnes per axle as part of the maintenance program. Increasing the axle loading capability of the network enables increased wagon loads which increase the tonnes throughput per train. The majority of growth is in mineral and mining commodities which will be the prime drivers for heavier axle loads. There are no plans to increase the axle loading capabilities of branch lines of 18.5 tonnes per axle and lower as it is not warranted by the anticipated traffic growth.

The extension of the 25 kV AC electrification is firstly strategically targeted to close gaps in the existing electrification network that conveys high tonnages to reduce locomotive changeovers and the operating delays that they introduce. Secondly, the 25 kV AC network will replace the existing 3kV DC electrification network in high tonnage corridors. This is because the 25 kV AC is technically better suited to the high volumes requiring a lighter mast and fittings and fewer substations spaced further apart; this is less restrictive on the number of trains in the section. Finally, the 25 kV AC will be extended into currently non-electrified lines as and when the volumes make it economically viable.

6.3 Wagons

Transporting the volumes envisaged in the MDS requires sufficient and appropriate rolling stock in wagons and locomotives. TFR has three distinct operations; General Freight Business, and the heavy haul operations of the Coal Export and Iron Ore Export Lines. Each of these has their own unique set of wagons and locomotives. This business case addresses the General Freight locomotive requirements only though they are lightly interlinked with the other operations.

The MDS predicates growth over a number of flows and which extend over a number of operating areas where locomotives are changed because of traction changes dictated by the rail network infrastructure. Wagons are tightly linked to the commodities they transport while locomotives relate to the mass but not the commodity itself; accordingly locomotives are allocated according to the tonnes transported over the particular operating section.

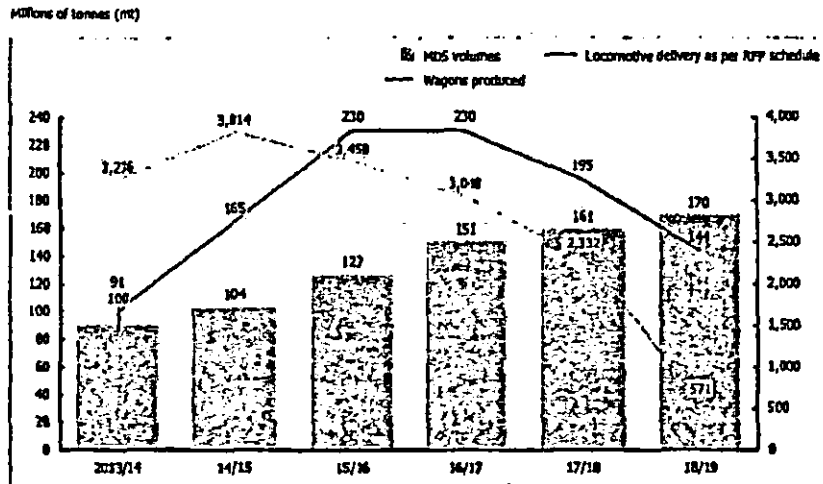
To meet MDS volumes, wagon capacity needs to expand for all TFR businesses. In addition to producing new wagons through TE, there are various life extension strategies in place to sustain capacity within the business.

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Wagon production

EXHIBIT 35

The wagon build programme will deliver wagons in advance of demand thus enabling the delivery of MDS volumes



The exhibit above shows that wagon production will peak well in advance of MDS volumes and locomotive delivery. Therefore, wagon capacity will likely not be a constraint in the delivery of MDS volumes.

In addition to all these elements, TFR has also developed a change management plan including assimilation of new technology, implementation of the new operational philosophy and execution of the new maintenance strategy. (See section E16, Change management plan)

7. Risk management

7.1 Risk overview

A transaction of this magnitude in the public sector has inherent risks that should be addressed. Some of the main categories of risks are planning risk, market risk, exchange rate risk, operational readiness risk, transaction governance, legal risk, and exogenous risk. Transnet uses a CURA framework to categorise and assess risks, as per the exhibit below.

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EXHIBIT 36

Risk assessment and rating		
	High High High High	Medium likelihood, medium impact Low likelihood, low impact
Risk	Risk ranking	Mitigation action
Planning	II	<ul style="list-style-type: none"> • Socialised procurement and planning team • Conservative payment regime to incentivise delivery • Optimised number of OEMs for planning required and benefits realized • Staged procurement strategy to maintain flexibility in delivery schedule and continuous monitoring of performance against MDS estimates • Escalate against Market Development Strategy • Clear short costing to impact key locomotive cost components • Hedge all foreseeable foreign currency-based expenditure as per Transnet policy
Market	II	
Exchange rate	II	
Operational readiness	II	<ul style="list-style-type: none"> • Develop people infrastructure plan • Upgrade training modules to line with new locomotives • Include maintenance staff training in supplier contract • Implementation of 3 year performance plan • Increase capacity by increasing production lines and shifts • Regular review of build programme that aligns TRE sections • Develop infrastructure expansion business plan • Implement infrastructure maintenance plan • The SATS technologies as part of the new locomotive specifications • School of Rail to provide appropriate SATS training
Transaction governance	II	<ul style="list-style-type: none"> • Minimize size of working team and minimize dissemination • Information where possible while ensuring strict confidentiality • Balance protocol on document sharing and data reuse
Legal	II	<ul style="list-style-type: none"> • Ensure transparent procurement process with accountability • Contract with multiple OEMs
Logistics	II	<ul style="list-style-type: none"> • Explore long term supplier agreements with Eskom while also taking advantage of electric locomotive regenerative powers

Information and Administrative Technology Services

7.2 Planning and delivery risk

There are three elements of delivery risk: approval delays, procurement process delays, and production delays. First, a lack of the appropriate approvals at the required time could result in delays in the transaction process. A major risk is TFR's current PPPFA exemption status that has lapsed. TFR is currently awaiting a PPPFA exemption for the 1064 locomotive procurement that will allow it to procure using the 60:20:20⁶ criteria as planned. Second, procurement delays during the tender and negotiation processes may also cause delivery risk and will be managed by the TFR procurement team with a robust procurement strategy, processes, and contingency plans. Third, production risk may arise if a supplier is unable to meet its delivery targets for the 1064 locomotives. Delays of the delivery schedule are a critical risk to Transnet's ability to meet its MDS commitments and the sensitivities are modelled below.

7.2.1 Delivery schedule sensitivities

Given expected production and procurement timelines, it is unclear whether the quantities demanded by the RFP (100 diesel locos in 2013/14) are achievable.

Even assuming that the RFP procurement schedules are achieved, as per the base case in Exhibit 37, TFR would experience locomotive shortfalls from 2014 to 2019, peaking at approximately 150 locomotives in 2014-2015, because of the procurement delivery lagging the required fleet demand. This results in a cumulative volume shortfall of 49 million tonnes for the MDS period.

⁶ Breakdown of bid evaluation criteria: 60 percent price, 20 percent local supplier development, and 20 percent B-BBEE.

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Delivery schedule sensitivity 1 and 2, which factor in delays in procurement and production, show significant impact on volume shortfalls (110 million tonnes and 155 million tonnes respectively), highlighting the importance of expediting delivery schedule to meet MDS targets.

Delivery schedules impact the cash interest cover CIC ratio significantly, decreasing the ratio for 3.6X to 3.0X.

To mitigate the risk of delays, TFR will pursue a number of strategies simultaneously, including contracting multiple suppliers; staging procurement by using international suppliers for initial batches as local supplier development ramps up; and pursuing a conservative payment strategy⁷ to incentivise delivery. TFR will also examine mitigation strategies to address the immediate locomotive shortfalls, including leveraging existing contracts, front-loading orders with international suppliers, exploring leasing, and revising the fleet run-out strategy.

7.3 Market risk

The inherent risk – which is also the greatest risk to realisation of Transnet's road to rail strategy – is that anticipated market growth will not materialise. This growth is dependent on South Africa's economic growth and the growth of its trading partners. Realisation of this risk could result in underutilised assets and diminished financial performance given the high-fixed-cost nature of the business. In addition, given that tariffs are projected to grow at a faster rate than CPI under the MDS plan, there is a risk that tariff increases are not fully realised. Other key business risks include inflated purchase prices (not related to forex changes) and cost increases exceeding forecasts.

7.3.1 Volume

Purchasing 1064 locomotives without matched volume demand will lead to a significant loss of value on the transaction. Sensitivities 1 (shortfall vs. MDS) and 2 (growth with GDP) in Exhibit 37 indicate the large swings in NPV due to MDS volumes not materialising with NPV dropping to R1.0 billion and –R20 billion, respectively.

Should sensitivity 2 (the worst case scenario, with volumes growing with GDP) materialise, the gap in NPV from the base case would only be closed with annual tariff increases of 14% during the MDS period. The infeasibility of increasing tariffs at this rate further underscores the importance of a flexible procurement strategy with key determinates regularly reviewed to inform the strategy.

Volume sensitivities also have the biggest impact on CIC, with Sensitivity 1 decreasing the cash interest cover ratio (CIC) from 3.3X to 3.1X in 2013/14 and Sensitivity 2 decreasing the CIC from 4.1X to 2.7X from 2015/16 onwards. To mitigate this risk, as mentioned in Section 3, Proposed Solution, TFR should stage procurement to maintain flexibility.

Exhibit 37 demonstrates that tariff growth impacts the NPV value significantly, with CPI-related growth 1 percent lower than the MDS base case of 7 percent, results in an NPV of –R1.5 billion. Accelerated tariff growth 1 percent above MDS results in a positive NPV of R7.8 billion. Tariffs have a marginal impact on CIC with the biggest impact in 2015/16, dropping from 4.0X to 3.9X. To mitigate the value at risk, TFR will execute against its Market Development Strategy, building strong customer satisfaction that will enable it to deliver target volumes.

⁷ Bulk of payment made on delivery and acceptance.

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EXHIBIT 37

Demand, tariffs, and delivery schedule risks must be managed (1/2)

Exhibit 37 - Section 1/2

Sensitivity			Impact		
Base case	Sensitivity 1	Sensitivity 2	Base case	Sensitivity 1	Sensitivity 2
<ul style="list-style-type: none"> Delivery as per RFP, first 100 diesels in 2013, 2014, first 85 electric in 2014/15 	<ul style="list-style-type: none"> 5 months in 2013 current cost month diesel month electric month diesel month electric month diesel month electric 	<ul style="list-style-type: none"> 8 months to complete procurement process 18-month diesel production 28-month electric production ~120 diesels per year ~125 electric per year 	<ul style="list-style-type: none"> Volume impact: +55mt Revenue impact: +R13.3bn NPV: R1.7bn CIC: 1.1 to 3.1x (2013/15) 	<ul style="list-style-type: none"> Volume impact: +155mt Revenue impact: +R30.2bn NPV: R3.2bn CIC: 1.8x to 3.0x (2014/15) 	<ul style="list-style-type: none"> Volume impact: +155mt Revenue impact: +R43.2bn NPV: R1.5bn CIC: 3.6x to 3.0x (2014/15)
<ul style="list-style-type: none"> MOS volumes achieved 	<ul style="list-style-type: none"> month diesel MOS (~7% cost) 	<ul style="list-style-type: none"> Volumes grow with projected GDP 	<ul style="list-style-type: none"> NPV: R1.7bn 	<ul style="list-style-type: none"> Volume impact: +55mt Revenue impact: +R16.4bn NPV: R3.0bn CIC: 1.3x to 3.1x (2013/15) 	<ul style="list-style-type: none"> Volume impact: +155mt Revenue impact: +R37.5bn NPV: R20bn CIC: 4.1x to 2.7x (2016/17)
<ul style="list-style-type: none"> ~7% annual escalation to 2019 and CPI thereafter 	<ul style="list-style-type: none"> Escalation with CPI (~6%) 	<ul style="list-style-type: none"> Escalation at more than MOS (6%) to 2019; CPI thereafter 	<ul style="list-style-type: none"> NPV: R1.7bn 	<ul style="list-style-type: none"> Revenue impact: +R5.4bn NPV: R1.5bn CIC: 4.0x to 3.9x (2015/16) 	<ul style="list-style-type: none"> Revenue impact: +R9.7bn NPV: R7.8bn

7.3.2 Purchase price

There are two elements of price risk. Firstly, there is the risk that TFR will not be able to purchase locomotives at the price estimates in this business case. Purchase price sensitivities detailed in Exhibit 38 indicate a moderate impact on NPV with a 10 percent increase in base price resulting in a reduction in NPV of R1.5 billion. To mitigate the risk of inflated purchase prices, clean sheet costing should be performed to unpack components of the locomotive price and support effective commercial negotiations. Secondly, there is the risk that price escalations in the future will be higher than current assumptions. To mitigate this, Transnet will deploy capable procurement team with a clear and effective contracting strategy.

7.3.3 Costs

Exhibit 38 indicates that cost base movements will have a moderate impact on NPV, decreasing it by R3.5 billion for a 5 percent increase in base costs. Costs have been budgeted according to Transnet's Corporate Plan.





7.4 Forex risk

Forex movement sensitivities in Exhibit 38 indicate a moderate impact on NPV with a 10 percent devaluation in Rand versus USD resulting in a -R2.4 billion movement in NPV. To mitigate the risk of exchange rate fluctuations, the project will be hedged according to the Group policy.

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EXHIBIT 38

Demand, tariffs, and delivery schedule risks must be managed (2/2)

Sensitivity			Impact		
Base Case	Sensitivity 1	Sensitivity 2	Base Case	Sensitivity 1	Sensitivity 2
 <ul style="list-style-type: none"> TFR Fleet Plan 	<ul style="list-style-type: none"> TFR Fleet Plan with 5% additional efficiencies 	<ul style="list-style-type: none"> TFR Fleet Plan with 10% additional efficiencies 	<ul style="list-style-type: none"> NPV: R2.7bn 	<ul style="list-style-type: none"> NPV: R5.2bn 	<ul style="list-style-type: none"> NPV: R7.2bn
 <ul style="list-style-type: none"> Hedging at current forward rate 	<ul style="list-style-type: none"> 10% devaluation of ZAR vs. USD 	<ul style="list-style-type: none"> 10% appreciation of ZAR vs. USD 	<ul style="list-style-type: none"> NPV: R2.7bn 	<ul style="list-style-type: none"> NPV: R6.3bn 	<ul style="list-style-type: none"> NPV: R5.2bn
 <ul style="list-style-type: none"> US\$2.6m (diesel), US\$3.5m (electric) before escalation 	<ul style="list-style-type: none"> Price increase by 10% over base case 	<ul style="list-style-type: none"> Price decrease by 10% from base case 	<ul style="list-style-type: none"> NPV: R2.7bn 	<ul style="list-style-type: none"> NPV: R1.2bn 	<ul style="list-style-type: none"> NPV: R4.3bn
 <ul style="list-style-type: none"> Costs classified as locomotives, wagons and infrastructure with an allocation of GFB overheads 	<ul style="list-style-type: none"> 5% increase in base costs 	<ul style="list-style-type: none"> 5% decrease in base costs 	<ul style="list-style-type: none"> NPV: R2.7bn 	<ul style="list-style-type: none"> NPV: -R0.8bn 	<ul style="list-style-type: none"> NPV: R6.3bn

7.5 Transaction governance risk

For a transaction such as this, confidentiality is of the utmost importance to maintain the integrity of the procurement process and prevent unwanted media interest. Failure to uphold strict confidentiality may result in procurement delays or even compromise the entire transaction. This risk will be mitigated by implementing a governance framework that includes a High-Value Tender (HVT) process, a Steering committee to oversee the transaction and protocols (e.g. PMO and data room) to monitor and track the transaction. These items are described in depth in Governance (see section C8) and briefly below:

- A key objective of the High-Value Tender (HVT) Gateway Review Process is to provide real-time guidance, support and assurance against the PPM, tender management control framework, and procurement best practice at each gateway in the tender process.
- The 1064 Locomotives Steering Committee, which is chaired by the Transnet Group Chief Executive, has taken overall ownership of the final draft business case for locomotive investment and the procurement process.
- A PMO has been established at TFR with specific responsibilities for tracking progress towards milestones and establishing and owning a virtual data room to track dissemination of information and flag incidences.

7.6 Operational readiness risk

Operational readiness risk refers to TFR's potential inability to integrate the new fleet into its operations because of a lack of skills, infrastructure capacity, long-term maintenance strategy, and poor technology

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Integration in the fleet. Operational readiness, as well as Transnet's preparations, are detailed in the operational readiness section 6.

7.7 Exogenous risks

7.7.1 Energy security

Eskom supply remains constrained as South Africa's reserve margins have dropped to as low as just over 1 percent in the past 6 months compared to best practice of 15 percent. It is almost certain that South Africa will experience electricity shortages in the next few years. The resulting power outages will likely have knock-on effects on industry and slow down economic growth in the medium term as electricity supply continues to lag demand. Transnet faces at least four inter-related major risks related to energy security that must be appropriately mitigated:

- Delays could occur in Eskom's IRP build programme, resulting in a shortage of electricity for South Africa. South Africa hopes to meet forecasted demand by adding 21 GW of new capacity by 2030 through the IRP build programme. However, the programme is running behind schedule. Strike action and equipment failure earlier this year has made it likely that the Medupi plant will miss its deadline of coming online at the end of 2013. IPPs and nuclear power plants will most likely not have the capacity to have any meaningful impact on the supply shortfall in the medium term given the current lack of regulatory frameworks and procurement delays. Furthermore, Eskom has only been granted about 50 percent of the tariff increases it requires to finance Infrastructure Investment, which may also have long-term implications for Eskom's ability to meet demand.
- Energy costs could increase should the IRP's planned capacity be commissioned on schedule but at a cost much higher than in the initial plan. The cost of electricity is expected to rise at 8 percent per annum in the next 5 years to finance the required infrastructure investment. The planned migration to relatively more expensive clean energy will cause energy costs to rise even further.
- Timely decisions may not be made for electricity supply beyond Kusile capacity, resulting in a shortage of power beyond 2017.
- Electrification infrastructure may not be installed in the appropriate geographies to enable Transnet to capture volumes from new regions as planned.

7.7.2 Potential strike action

Given recent history, there is some risk of strike action along the local supply chain over the life of the transaction (i.e., at locomotive assembly factories, TFR, coal mines, and Eskom). Strike action at any point in the supply chain could delay delivery of locomotives, increase costs, and compromise operations of the fleet, resulting in lower volumes moved.

8. Governance

To ensure effective governance of the 1064 locomotives transaction, a number of structures have been implemented:

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- A Steering Committee with the primary purpose of providing oversight of the transaction, including developing a business case, submitting this business case to the appropriate governing bodies, and overseeing the procurement process.
- A high-value tender process managed in conjunction with Transnet Internal Audit (TIA) with the mandate to protect against fraud and corruption.
- A Project Management Office (PAO) to manage processes and timelines related to the transaction, including a confidential data room and the management of non-disclosure agreements (NDAs) and access to information.

8.1 Steering Committee

The 1064 Locomotives Steering Committee, which is chaired by the Transnet Group Chief Executive, has taken overall ownership of the final draft business case for locomotive investment and the procurement process. Key activities that have been overseen by the Steering Committee include:

- Developing the business case and approval for submission to Transnet's governing bodies.
- Submission of the business case to the Department of Public Enterprise (DPE)
- Appointment of working team members and accountabilities.
- Understanding operational requirements and alignment to business case
- Recommending a procurement strategy, including goals related to environmental issues, supplier development and localisation.
- Understanding and recommending strategies to address all legal ramifications of the locomotive procurement process.
- Ensuring procurement process transparency.

8.2 High-Value Tender Process (HVT)

Objective of the HVT

- A key objective of the High-Value Tender (HVT) Gateway Review Process is to provide real-time guidance, support and assurance against the TPM, tender management control framework, and procurement best practice at each gateway of tenders above R50 million.
- The purpose of the HVT Gateway Review Process is to increase the likelihood that the processes undertaken for these tenders are fair, transparent, equitable, competitive and cost-effective.
- The High-Value Tender (HVT) Gateway Review Process provides a platform for:
 - Providing assurance to BAC and other key stakeholders within Transnet on the effectiveness of the processes followed for high-value tenders.
 - Providing input into updating of procurement procedures and supporting controls, thereby strengthening the overall control environment for high-value tenders over time.
 - Fewer queries/challenges raised by DTCs and/or bidders during high-value tenders
 - Reduction in timelines due to reduction in number of re-tenders resulting in faster capacity creation.

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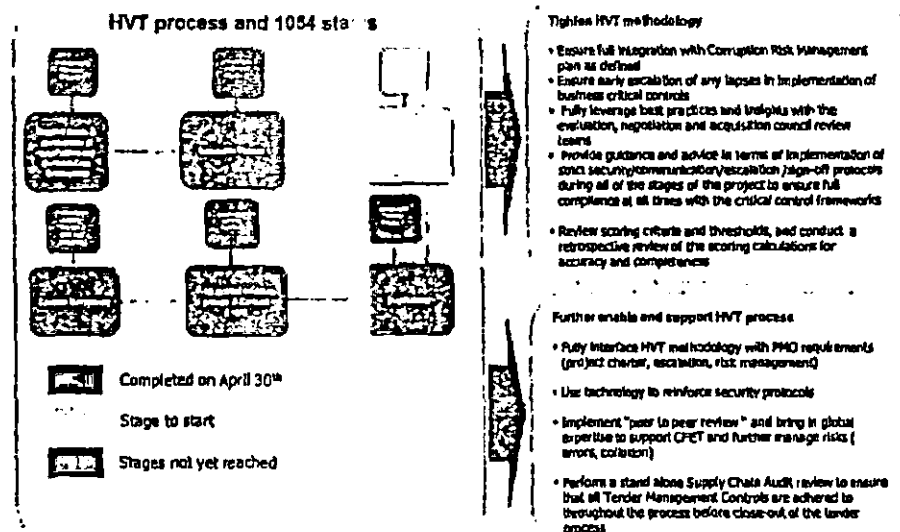
- Rolling out and sharing of best practice across all ODs to improve the efficiency of procurement processes.
- Long term up-skilling of procurement staff.

Design principles of the HVT

- Drawing on recent lessons learnt from 85 electric and 43 diesel locomotives tenders, enhance the overall tender process for improved efficiency, effectiveness and enhanced control.
- Play a greater role in the planning and coordinating activities to support the PMO.
- Ensure full integration with the Risk (Forensic) management plan developed for the 1064 locomotive acquisition.
- Introduce an international peer-review mechanism to bolster the team structure in the evaluation and negotiation stages to make the award "bullet-proof".
- Provide end-to-end support including the contracting stage to ensure there is no "leakage" between negotiations and contracting stages.
- Generally place added emphasis on ensuring that TIA is proactively involved at all stages of the gateway review process and are able to fully share best practices and insights with the evaluation, negotiation and acquisition council review teams.

EXHIBIT 39

Approach to the 1064 Locos HVT

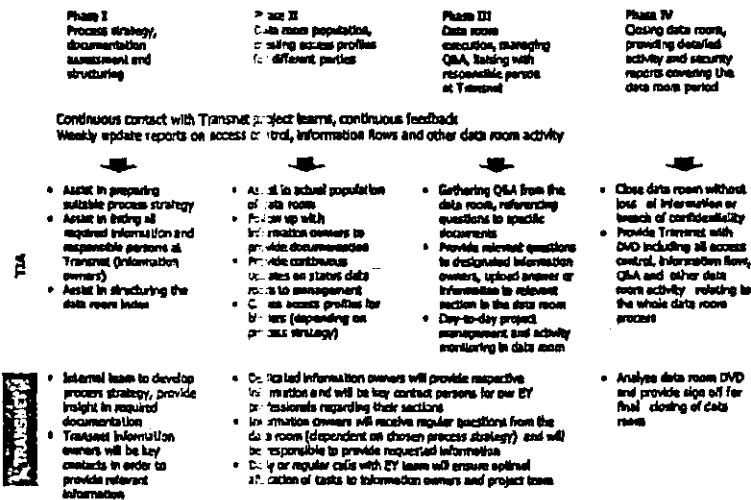


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EXHIBIT 40

Data Room Project Management Process



8.3 Project Management Office (PMO)

A PMO has been established to monitor process and timelines related to the 1064 locomotives transaction, including the following items:

- Tracking project milestones and critical path and ensuring that progress is on-track against key deliverables.
- Scheduling Steering Committee meetings at the request of the Chair (GCE).
- Following up on action items emerging from SteerCo meetings.
- Ensure implementation of key confidentiality protocols/requirements (e.g., NDAs signed by all parties, data room access is restricted to a small group, etc.).

The PMO is also responsible for owning and managing the transaction's central data repository ("data room"). This includes:

- Maintaining and regularly work with content owners to ensure availability of latest final deliverables (e.g., RFP, Business Case, etc.) and working documents (Industry analyses, cost build ups, etc.).
- Categorising and standardising file names to enable easy tracking.
- Most critically, the data room will also provide transparency (as needed) to enable tracking of downloads (who, when, frequency) and assist in internal auditing.

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9. Conclusion

Having explored all options, Transnet's purchase of 1064 locomotives is a critical procurement event that will transform the business, increase operational efficiencies, support local supplier development, and enable Transnet to meet its MDS targets.

Key risks are being mitigated; volume volatility will be addressed through flexible procurement, foreign exchange risks are being mitigated through hedging and potential shortfalls are being mitigated through efficient procurement and accelerated locomotive orders. The business will be operationally ready to take on new locomotives and interdependencies are being planned for.

Therefore, Transnet recommends the purchase of 1064 new locomotives (465 diesel, 599 electric) at an estimated purchase price of R38.6 billion.

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D. PROCUREMENT STRATEGY

The benefits in this section are contingent on:

- Responses from bidders
- PPPFA exemption
- Post-tender negotiations

1. Overview

1.1 Contracting strategy

Transnet's contracting strategy includes a number of key aspects, including alignment with the Government of South Africa's socioeconomic policy framework, an open tender process, approaches to ensure flexibility and an appropriate number of suppliers. The outcome of Transnet's contracting strategy is subject to bid evaluations and supplier negotiations.

Socioeconomic policy and localisation

The transaction will be aligned with the Government of South Africa's socioeconomic policy framework, including CSDP, NGP, NDP, SSI, and IPAP2. In addition, local content will be increased through skills development, job creation and technology transfer. Transnet's programmatic procurement strategy follows threshold requirements for locomotive localisation, in line with those designated by the National Treasury (i.e., 55 percent for diesel, 60 percent for electrical locomotives). To ensure sufficient locomotive production to enable development of local industry in South Africa, Transnet will procure a minimum number of locomotives per year, which will be agreed upon with vendors through negotiations.

A six-step evaluation methodology will be applied, based on the evaluation criteria: price 60 percent; supplier development 20 percent; and Broad-Based Black Economic Empowerment (B-BBEE) 20 percent.

Open tender process

Transnet is approaching the market through an open tender process to attract the broadest possible supplier base and maximise value for South Africa and Transnet. Tenders have been issued for both locomotive types. The RFP closure date is April 28th, 2013. Integrity of the transaction will be ensured through a High Value Tender (HVT) process overseen by Transnet Internal Audit (TIA).

Once OEMs are selected through the open tender process, Transnet reserves the right to contract independently with the chosen OEMs for the transfer of skills and support of maintenance activities.

The aforementioned localisation requirements suggest an opportunity for TE to be involved in locomotive production. However, TE will compete with other bidders for local content. The selected OEMs will in turn partner with the most competitive local supplier(s).

Flexibility

There will be flexibility to adapt procurement to the way locomotive demand materialises – based on volumes achieved and operational efficiencies realised. Transnet will conduct an annual forward review of its locomotive fleet requirements. This long-term view will enable it to amend order quantities as required while sustaining local industry development, providing sufficient notice to account for the production lead times of manufacturers (e.g., 18-24 months). The ultimate number of locomotives

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procured is assumed to remain fixed, as is the aforementioned minimum quantity, but flexible procurement could impact the timing by which Transnet acquires its 1064 locomotives subject to annual reviews of Transnet's fleet requirements.

Number of suppliers

A number of factors will inform the decision on the number of suppliers Transnet will select through the procurement process:

- Ability to deliver against timeline. To fast-track timelines and mitigate potential locomotive shortfalls, Transnet may procure from more than one supplier in parallel, which could increase the number of suppliers needed.
- Ability to achieve standardisation. Transnet's new maintenance philosophy will require interoperability. This will lead to a stronger balance sheet and reduce the requirement for spares. However, this could reduce the number of suppliers needed.
- Ability to secure supply and price. Security of supply and protection against potential price escalations – both for locomotive prices and after-sales support and maintenance – suggest the need for more than one supplier.

1.2 Procurement overview

In accordance with Transnet's Board approved Supply Chain Policy Transnet shall apply Section 217 of the Constitution of the Republic of South Africa, (Act No 108 of 1996, as amended) by contracting for goods and services in accordance with a system which is fair, equitable, transparent, competitive and cost effective.

Transnet shall reform all its procurement activities in order to align them in an integrated manner with national developmental goals, relevant legislation that enforces the goals and relevant governmental supply chain management approaches that are cost-effective.

Transnet has been mandated by government to assist in lowering the cost of doing business in South Africa, enabling economic growth and security of supply through appropriate ports, rail and pipeline infrastructure as well as operations in a cost effective and efficient manner within acceptable benchmark standards.

The aim of the Supply Chain Policy is to ensure that Transnet gets value for money in the procurement of goods and services in order to fulfil its mandate while redressing the economic imbalances that have been caused by unfair discrimination in the past.

The focus for Transnet with respect to its SD activities will involve, among others, the leveraging of its procurement to increase local content through the development of skills, job creation and technology transfer. This will lead to decreased costs in its supply chain and an overall increase in its competitiveness. Transnet's aim is to build stronger and more meaningful relationships with its suppliers, to find mutually beneficial mechanisms to extract maximum value.

Transnet's procurement of rolling stock and in particular the 1064 locomotives provides a unique opportunity for both localised assembly and localised manufacture of component parts, but in addition an opportunity to strategically re-position the rolling stock industry. This is particularly true of the role

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and function of the largest incumbent rolling stock manufacturer in South Africa, Transnet Engineering as well as players in the private sector.

There is a drive by Government to increase the localisation of rolling stock. Government has strong leverage over the procurement of these assets as they reside almost completely within state owned companies, predominantly in Transnet and PRASA. Other sectors such as mining and the power sector bear close similarities in the production processes and heavy engineering requirements associated with rolling stock and thus the manufacturing sector would benefit substantially through the additional manufacturing capability and demand that this order would provide.

The Department of Trade and Industry (DTI) have identified the localisation opportunities in rolling stock as part of a number of key sectors within the industrialisation programme of South Africa as contained within the Industrial Policy Action Plan (2011/12). Transnet has identified the same opportunities as part of its MDS and through its Supplier Development Plan seeks to develop and empower local business providing goods and services to the parastatal.

2. Procurement strategy

Transnet promotes open competitive bidding as its default procurement mechanism since this is the best means of obtaining value for money. All Transnet procurement shall be done in a way that ensures that Transnet obtains quality goods and services at competitive prices. It was therefore decided to follow an open tender process for the locomotives acquisitions. In crafting the procurement strategy, which informed the RFPs, the following aspects were focussed on and considered.

Transformation and Empowerment

In order to address economic imbalances that have been caused by unfair discrimination, government developed the black economic empowerment policy.

- Black economic empowerment is broad-based;
- Black economic empowerment is an inclusive process;
- Black economic empowerment is associated with good governance; and
- Black economic empowerment is part of the country's growth strategy.

Government uses a number of instruments to achieve black economic empowerment. It has developed a "balanced scorecard" to measure progress made in achieving B-BBEE objectives by enterprises and sectors. This has been included in the tender.

In evaluating and awarding the locomotive tenders, Transnet shall award preference points in regard to the contribution that a supplier makes towards the achievement of broad-based black economic empowerment objectives, namely.

- Ownership and Control;
- Management;
- Skills Development;
- Employment Equity;
- Preferential Procurement;

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- Enterprise Development; and
- Socio-economic Development.

Additionally, Transnet will award further recognition points for B-BBEE based on the extent to which a supplier commits to improving its B-BBEE status over the contract period. This is referred to as Further Recognition Criteria (FRC).

B-BBEE has been set as 20 points in the overall scoring for the tenders assuming PPPFA exemption is given.

Job creation

Transnet must be a major contributor to job creation. Therefore, Transnet's procurement shall focus consistently on areas that have the potential for creating employment on a large scale in order to contribute substantially to the national employment creation effort. As the main economic agent in the South African transport and logistics infrastructure, Transnet's planned capital expenditure forms the big bulk of Transnet's procurement spend. This is the single largest procurement spend of the MDS and as such has been planned on a programmatic basis so as to obtain maximum benefit to achieve industrialisation which will in turn create long-term sustainable job opportunities particularly among the previously disadvantaged members of the South African society.

Local Content

This procurement has been designed in a manner that builds industry capacity around its build programme. Transnet has identified this as its key programmatic procurement and consequently developed a long-term procurement and local content plan. Tender requirements include local procurement and supplier development (SD), which will also address the transformation agenda.

Transnet has included the local content percentages as detailed in the National Treasury Instruction Note Issued on 16th July 2012 that highlights a local content percentage of 55 percent for diesel and 60 percent for electric locomotives. This is in line with the DTI's Industrial Policy Action Plan II in driving strategic fleets. Local content is included as a threshold.

Current local content for diesel locomotives and for electric locomotives has increased over the recent acquisitions due to the CSDP. The technology and competence in the production of locomotives occupy a different space in the challenge to localise in comparison to wagons. Globally, there are few large suppliers or OEMs of locomotives and their market dominance of the technology, the supply chain, and the know-how require nuanced and technology capture localisation strategies in order to create real sustainable local manufacturing benefits.

The approach adopted by Transnet has been to stipulate the following required minimum threshold requirements for locomotive localisation that are in line with those designated by National Treasury as highlighted above:

1. 55 percent for diesel locomotives; and
2. 60 percent for electric locomotives.

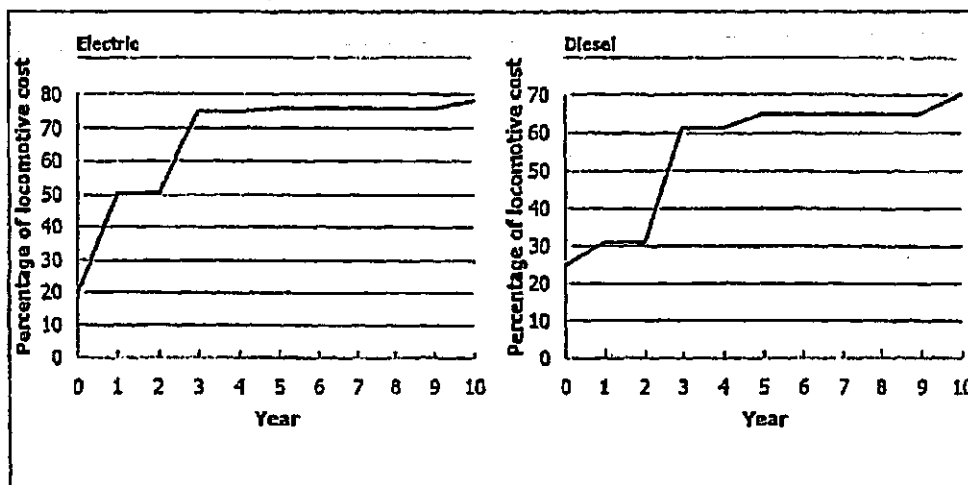
Transnet's assessment of this opportunity is that the economies of scale in purchasing 1064 locomotives are sufficiently large so as to create localisation opportunities that could elevate percentage localisation above these minimum thresholds at very little additional price premium to Transnet.

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South African component suppliers are not yet able to produce the inputs and require build-up to reach substantial levels of localisation. Transnet estimates that this will take at least a full 3 years to complete, even though there may be certain components (particularly those used in electric locomotives) that can be localised much earlier.

EXHIBIT 41

Estimated time to localise localisable components across diesel and electric locomotive platforms



A detailed component analysis undertaken by Transnet demonstrates that price premium is not static across the percentage rise in local content, but rather is informed by the cost of production of the individual components making up a locomotive.

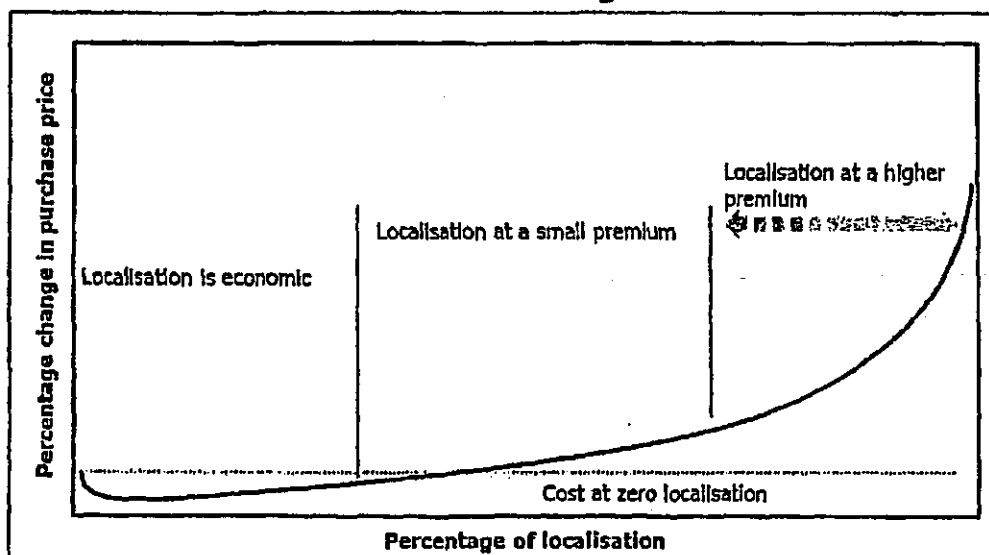
In certain areas, particularly in assembly and fabrication, South African localisation is economic especially given the order size of 465 diesels and 599 electric locomotives.

For other components, although not yet localised, a relatively small price premium is evident. In these cases similar industrial production capability is already available in South Africa and needs to be re-aligned to the production needs of locomotive components. The capital equipment setup cost is low for components such as under-frames, radiators, transformers, etc.

However, as localisation requirements increase, certain components begin to have substantial price premiums associated with their local production. Examples include engines, control systems, specialised braking equipment, etc.

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EXHIBIT 42

Cost to localise increases with increasing level of localisation

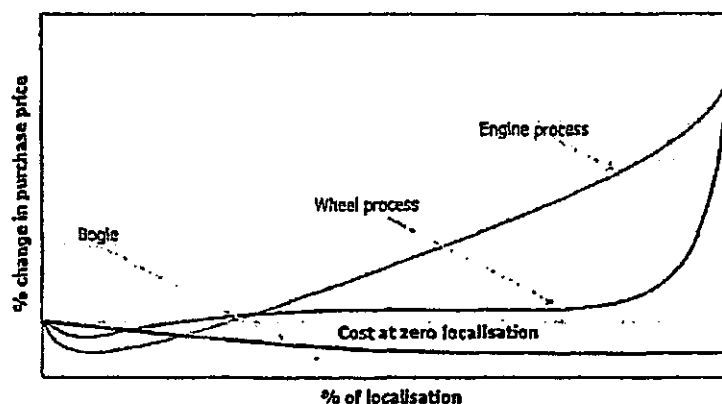
A grey zone exists where the limit of localisation is dependent on OEM investment in manufacturing in South Africa. Part of the way the Transnet RFP is structured is to attempt to capture as much localisation as possible within the grey zone without overly inflating the price premium paid.

As each component within a locomotive has its own price to localisation curve, Transnet could expect to pay different premiums for each sub-set of local component manufacture. By way of an example:

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EXHIBIT 43

Each component within a locomotive has its own price verse localisation curve



1. **Engine process.** Initial benefits are achieved through utilising cheaper skilled labour in assembly. Increased localisation comes at a high cost as specialised parts could only be manufactured locally in small production runs with insufficient economies of scale to bring down the unit costs of such parts.
2. **Wheel process.** Small benefits are achieved through some local assembly and a slight premium is paid as forging is undertaken locally. As the manufacture of a complete bearing moves locally, the costs increase steeply due to small, highly technical bearing production runs; and
3. **Bogie.** Benefits are achieved through utilising a competitive manufacturing process and reduced transport costs of not having to bring bulky items such as bogies to SA.

One of the characteristic of the curves for many component items analysed is that the price-premium grows rapidly at high levels of local content requirements (80 percent to 100 percent). By way of an example, for wheel assembly, much of the wheel could be localised at relatively low cost, including the bearings. However, the rollers within each bearing are parts that cannot be economically localised and are produced at just a few global sites. This is due to technological complexity in the production process, safety criticality of the item, and the need for high production volumes to make the production runs cost-efficient. By implication, forcing high localisation requirements on such components will result in uneconomic price premiums as well as possible compromises in safety critical items such as braking systems, wheel assemblies, etc.

Transnet's detailed component analysis is summarised into 14 component groups for both diesel and electric locomotives. The cost structure is based on 18 separate bills of materials obtained from the current assembly and maintenance of locomotives and thus closely emulates current market pricing.

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Target localisation is based on a component by component assessment of localisation potential for each particular component within a component group. Because of the complexity and high cost to localise certain individual components (often small components), the analysis seldom reaches full 100 percent local content as is evident in the tables below. The cost to localise is based on an assessment of the capital cost to set up a production plant for the various components within each category. The time frame to localise is based on a similar approach. The findings demonstrate the potential to localise overall local content in excess of the Treasury Note requirements of 55 percent and 60 percent for a diesel and electric locomotive.

EXHIBIT 44

Electric locomotive pricing per component set, current and target localisation, and estimated cost to localise

Categories	Percent			Percentage of	
	Total cost %	Current local %	Target local %	Cost to local	Accum local
Locomotive assembly	21	19	20	0.29	20
Main transformer	16	0	13	1.33	33
Main power traction system incl. aux systems	15	0	8	0.87	41
Main power traction motors	14	0	11	6.33	53
Propulsion switch gear	9	0	6	1.53	58
Bogie	4	0	4	0.25	62
Cooling, ventilation, and filtration systems	4	0	3	0.80	65
Locomotive control systems	4	0	2	1.90	67
Drivers cab	3	1	3	0.15	70
Auxiliary supply	3	0	3	2.12	73
Wheel system	2	0	2	3.10	74
Pneumatic supply system	1	0	1	5.81	76
Braking system	1	0	0	3.94	76
Coupling system	1	0	1	1.00	77
Other	1	0	0		
Grand total	100%	21%	77%		

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EXHIBIT 45

Diesel locomotive pricing per component set, current and target localisation, and estimated cost to localise

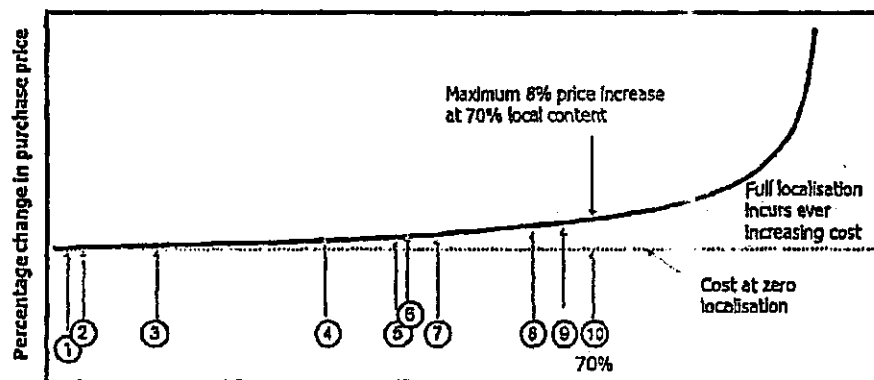
Categories	Percent			Percentage of	
	Total cost %	Current local %	Target local %	Cost to local	Accum local
Drivers cab	2	0	2	0.27	2
Bogie	4	3	4	0.27	5
Locomotive assembly	22	20	22	0.32	23
Cooling, ventilation, and filtration systems	5	0	4	0.68	32
Main power traction system incl. aux systems	23	0	10	0.82	42
Coupling system	1	0	1	1.03	43
Underframe (I-beams)	1	0	1	1.25	44
Locomotive control systems	6	0	3	3.44	47
Braking system	2	0	0	5.59	47
Main power traction motors	17	0	14	6.33	61
Wheel system	3	0	3	6.45	64
Pneumatic supply system	2	0	1	7.38	65
Engine system	13	0	5	8.07	70
Other	1	0	0		
Grand total	100%	24%	70%		

As is demonstrated in these tables, the difference between current and expected 3- to 5-year localisation requirements are significant. The relatively easy localisation opportunities have already largely been taken and further localisation will require not only additional capital investment but also the appropriate testing and quality control of both the production facility and the parts produced.

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EXHIBIT 46

Local content of 70 percent overall incurs up to an 8 percent increase in purchase price



Percentage of localisation					
Item #	Category	% Increase	Item #	Category	% Increase
1	Drivers cab	0.27	6	Aux supply	2.1
2	Bogie	0.27	7	Control system	3.4
3	Loco assembly	0.33	8	Traction motors	6.3
4	Main transformer	1.3	9	Wheel system	6.5
5	Propswitch gear	1.5	10	Engine system	8.0

A key finding of the analysis is that the nature of the price premium curve as shown above for a generic locomotive is such that Transnet could achieve a high level of localisation at relatively small price premiums. For diesel and electric locomotives, localisation of 70 percent and 77 percent respectively could be achieved at an average price premium of less than 2 percent. This percentage is calculated as the average price premium paid for a locomotive – i.e., including some items with no price premium and others such as engine assembly with an estimated 8 percent price premium.

This is provided that three conditions are met:

1. That components are localised up to a level that is economically viable (i.e., that price premiums for each set of component are economic);
2. That realistic time frame targets are set to reach full localisation potential. Shortening these time periods would in itself result in considerable uneconomic price premiums; and
3. That some minimum annual order size for locomotive production is guaranteed to the market over the life of the 1064 locomotive supply contracts. The analysis indicates that a guaranteed minimum order size of 50 diesel and 70 electric locomotives is required annually for the life of the contract.

The Benefits of Localisation

The benefits associated with localisation are considerable and, based on the estimates for 70 percent localisation for diesel locomotives and 77 percent for electric locomotives, the following benefits are evident:

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Enterprise benefits to Transnet are considerable and include the design and integration capabilities that would be passed to Transnet Engineering through a structured programme of localisation; an enhanced Research and Development base in conjunction with the selected OEMs to develop and refine technologies for both the South African and African locomotive market; and re-engineering capability to design and provide technologies aligned to the needs of the South African rail market.

Benefits to the manufacturing sector will include key industrial capability in:

- Traction motors and traction control equipment;
- Locomotive control system capability;
- Locomotive electrical systems; and
- Large diesel engine capability.

In addition, there will be considerable benefits in related industries such as: heavy engineering, component manufacture such as found in the auto sector; electromechanical, electrical machinery, and software systems and design.

Benefits to the South African economy include benefits to a number of related sectors that would enhance capability and export potential. There would be R78 billion in economic impact for South Africa at a small localisation premium of 2 percent, implying a cost of localisation of 2 percent given expected levels of local supplier development. The resulting benefit-to-cost ratio of localisation is thus greater than 125 to 1 in favour of localisation. Multiplier benefits would be substantial and for each Rand of localised production there is an expected average multiplier of R2.74 across the economy.

Procurement strategy summary

- Issue open tenders for both locomotive types.
- Local content thresholds of 55 percent and 60 percent for diesel and electric locomotives respectively as per PPPFA and National Treasury Instruction Note.
- SD/BBBEE (40 percent) threshold.
- Technical threshold.
- Stage 2 will comprise price (60 percent), Supplier Development (20 percent), and B-BBEE (20 percent).
- B-BBEE included for scorecard (10 points) and FRC (10 points).

Reasons for following an open tender programmatic process

To ensure the bidding process is as fair and transparent as possible. As a long-term procurement event, open tender will identify suppliers with whom TFR can partner, to ensure value for money and compliance with Transnet's support for the NGP and government objectives. The programmatic nature of this purchase requires TFR to find suppliers who can commit to delivering on governments industrialisation objectives, which include:

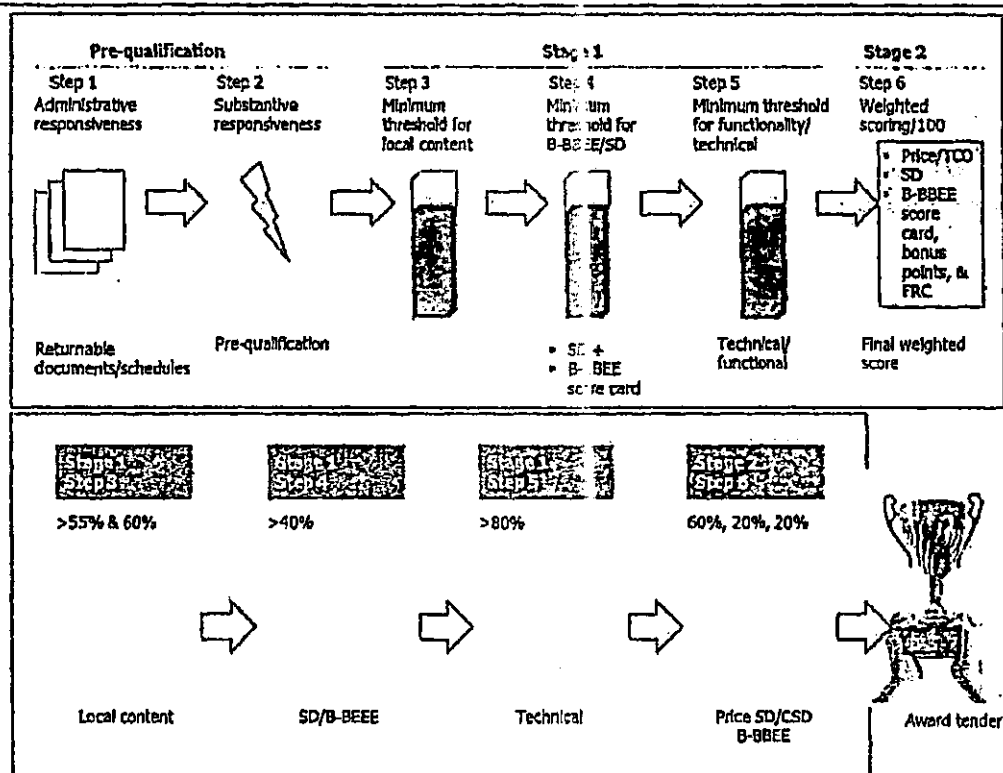
- Localisation and industrialisation
- The creation of jobs
- The transfer of technical skills, IP, and know-how to the South African industry

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- Increasing the capability and capacity of the South African rolling stock industry
- Reducing capital leakage
- Increasing South Africa's exports
- Integrating of South African suppliers into the locomotive OEMs' global supply chains
- Long-term security of demand will allow suppliers to commit to investing in SA operations
- Suppliers must commit to transferring skills to SA suppliers to allow for the long-term maintenance of the locomotives post warranty period.

Evaluation methodology

EXHIBIT 47



- Stage 1 with minimum disqualifying thresholds, will follow a three-step process, starting with the Local Content (Step 3), followed by the SD/B-BBEE (Step 4) evaluation, and finally the Technical (Step 5) evaluation. Stage 2 will comprise the commercial (Step 6) evaluation including price (60 percent) and supplier development (20 percent) and B-BBEE (20 percent)
- In line with categories for local content identified by the DTI, 55 percent and 60 percent minimum threshold of local content will be applicable to diesel and electric locomotives, respectively. These thresholds will need to be equalled or exceeded for the submission to qualify for SD/B-BBEE evaluation.

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- A minimum threshold of 40 percent will be set for the SD/B-BBEE criteria evaluation. This threshold needs to be equalled or exceeded for the submission to qualify for Step 5.
- A minimum threshold of 80 percent will be set for the technical criteria evaluation. This threshold needs to be equalled or exceeded for the submission to qualify for Step 6.
- Once the minimum criteria thresholds are both met or exceeded, the supplier's submissions will be evaluated against price, SD, and B-BBEE.

3. Localisation

Since 2010, there have been significant changes in the South African policy environment, as well as to Transnet's strategic objectives. The New Growth Path (NGP) was launched in 2010 and at the end of 2011, the National Development Plan (NDP). Transnet realised the need and opportunity to develop a more holistic approach to supplier development, incorporating changes to the policy environment, lessons learned from previous SD initiatives, and Transnet's development of a holistic Supply Chain Policy and Framework, as well as its new corporate strategy, the MDS.

The South African government has highlighted supplier development as one of the ways with which to improve the local economy. SD is achieved by "procuring in such a way as to increase the competitiveness, capacity and capability of the local supply base, where there are comparative advantages and potential competitive advantages of local supply" and is derived from the Competitive Supplier Development Programme (CSDP), which is a government initiative run by the Department of Public Enterprises. At Transnet, SD is driven through procurement with a focus on delivering transformation and empowerment as well as economic growth.

The transformation element ensures that procurement transactions bring historically disadvantaged individuals (HDIs) into the economic mainstream through the advancement of HDI ownership. It addresses economic disparities and entrenched social inequalities through the use of the B-BBEE scorecard and the seven pillars which make up the score card.

Growth of the local supply base is achieved through leveraging high-value procurement to achieve (where applicable) industrialisation, localisation, technology transfer, job creation and preservation, developing industry specific skills, enterprise development (ED), and rural integration.

The above has been factored into the locomotive tenders as has been highlighted in the Procurement Strategy Section and as is evidenced in the evaluation methodology.

Transnet has extracted SD value through some benchmark Competitive Supplier Development Programme (CSDP) locomotive acquisition contracts. These include:

- 100 X General Electric Locomotives – 54 percent SD commitment
- General Electric Long Term Parts Agreement – 12 percent SD commitment
- Electro-motive Diesel Long Term Parts Agreement – 41 percent SD commitment
- 32 X Mitsui/Venus Locomotives – 40 percent SD commitment
- 50 X Electro-motive Diesel Locomotives – 67 percent SD commitment
- 44 X Mitsui/Venus Locomotives – 39 percent SD commitment
- 43 X General Electric Locomotives – 65 percent SD commitment.

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These commitments have been achieved with purchases being made sporadically and on a transactional basis; therefore, we expect greater benefit to be achieved from a programmatic procurement of this nature given the size and stable pattern of demand it creates. The benefit will obviously be limited if PPPFA exemption is not obtained.

Government envisages SOC expenditure as one of the key levers to achieve transformation and growth. The 1064 locomotive procurement provides a great opportunity to fulfil government's SD aspirations.

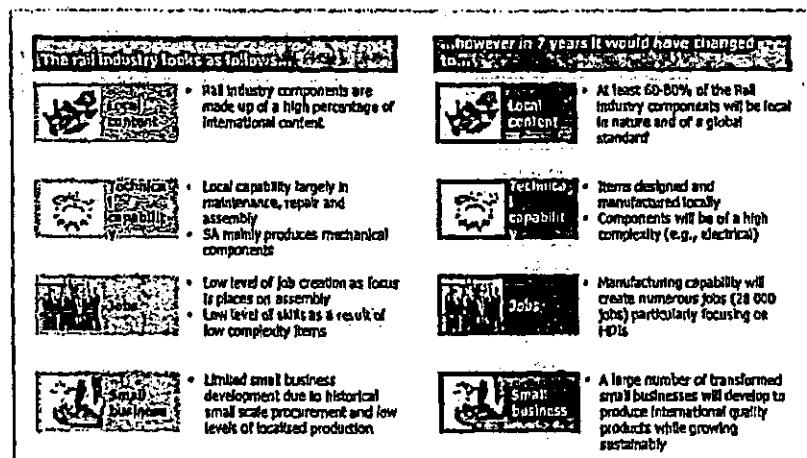
This spend will be leveraged to extract SD value in a manner that increases employment and also facilitates diversification beyond South Africa's current reliance on traditional commodities and non-tradable services. It will address the shortfall in artisan and technical skills by increasing the education level and skills capability. An equitable socio-economic society will be promoted through the integration of HDIs into the mainstream economy within the rail industry. Small businesses will be enabled in a manner that allows them to successfully compete in the South African economy. There will also be rural development throughout the country ensuring the sustainability of these communities.

Transnet's main focus with regards to these two tenders will be around the industrialisation of the rail industry. This spend can be leveraged in order to industrialise this sector and create sustainability. A large number of jobs will be created while ensuring that the local industry produces world-class products that can be exported. There will also be a large portion of spend on maintenance and upgrading of new and existing locomotives and wagons, which will ensure sustainability.

Our intention is to take the rail industry as it stands and fundamentally shift it within 7 years. This shift is illustrated in below.

EXHIBIT 48

Fundamental shift of the Rail Industry over the next 7 years



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4. Comparison of benefits between 90/10 and 60/20/20 methodologies

The 60/20/20 approach to localisation targets will create 30 percent greater total economic benefits (40 percent greater net benefits) at a significantly lower localisation cost, as shown in the exhibit below. Calculations are based on a total contract value of R38.6 billion.

The 60/20/20 approach will facilitate a local spend of an estimated R28.4 billion at an additional cost of R621 million. The overall benefit to the South African economy, factoring in the multiplier effect, is R78 billion (a net benefit R77 billion after deducting expected costs); this assumes high localisation levels of 70 percent for Diesels and 77 percent for Electrics. The 90/10 approach will facilitate local spend of an estimated R22.1 billion at an additional cost of R4.5 to 6.0 billion. The benefit to the South African economy based on the multiplier effect is R 61 billion (a net benefit ~R56 billion). This is based on 55 percent localisation for Diesels and 60 percent for Electrics.

EXHIBIT 49

The 60/20/20 approach to localisation will provide more benefits compared to the 90/10 approach

	60/20/20			90/10		
	Proposed local spend (Rm)	Additional cost to localise (Rm)	Benefits through multiplier effect (Rm)	Proposed local spend (Rm)	Additional cost to localise (Rm) range	Benefits through multiplier effect (Rm)
Diesel locomotive	9,803	250	26,860	7,653	1,222 to 1,697	20,970
Electrical locomotive	18,626	371	51,036	14,467	3,235 to 4,313	39,639
Total	28,429	621	77,896	22,120	4,457 to 6,010	60,609

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1. 7-year commodity growth

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INTERMODAL	CONTAINERS (20', 40', 12M & NON-ISO STANDARD)	8.852	8.096	9.278	10.292	10.158	10.812	11.647	2.796	Linked to GDP growth. Refurbishment and establishment of terminals. Contingency mineral products at key bottlenecks. Development of Freight Hubs in areas such as Port Elizabeth and Bloemfontein by New Caste Terminal. Delink Strategy: Kg. great Yard Rail Stack. Reconfigure Bayhead Yard to push back to Inland. Durban - Free State - Gauteng Logistics and Inland Corridor - Transnet Port of Durban expansions, new export port, Rail corridor capacity expansion, Gauteng hubs and terminals development. Transnet Integrated Container Strategy in consultation with current and potential customers.
	COAL (EXDOM - CHIMBEN COAL IN CONTAINERS)	2.647	1.200	2.964	4.272	4.578	5.272	5.798	3.151	Coal deliveries to the power stations will increase based on the growth in electricity usage over the next years. Cango will use container rail solutions for the next two years and apply solutions thereafter. TFR Business case for these have been approved.
	COAL (EXDOM - SAOTV/SEI COAL IN CONTAINERS)	0.600	1.827	2.736	4.881	8.000	0.000	0.000	-0.600	
	COAL (EXDOM - TUTUKA COAL IN CONTAINERS)	0.000	1.800	2.888	9.900	0.000	0.000	0.000	0.000	
	AUTOMOTIVE (MOTORVEHICLES)	0.450	0.310	0.414	0.438	0.465	0.483	1.274	0.284	
	COMMODITIES NOT CLASSIFIED IN GROUPS	0.806	0.276	0.028	0.084	0.016	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	12.638	14.240	18.833	18.838	18.265	16.703	18.782	6.168	
	COMMODITIES NOT CLASSIFIED IN GROUPS	4.261	3.551	4.125	6.758	6.318	7.207	7.477	2.216	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	4.218	4.761	5.300	5.300	5.300	5.300	1.310	Demand mainly from China - driven by increased steel production. Export growth indicates modest increase in domestic consumption is set to grow once local beneficiation projects are started.
	CHROME (EXPORT RICHARDSBAY)	1.755	3.418	4.859	5.160	1.395	5.535	3.715	1.308	
	MAGNETITE (EXPORT MAPUTO)	2.405	0.567	4.250	4.618	4.878	4.839	6.000	3.395	Demand mainly from China - driven by increased steel production. Export growth indicates modest increase in domestic consumption is set to grow once local beneficiation projects are started.
	ROCK PHOSPHATE (DOMESTIC RICHARDSBAY NAVIGATE RO)	1.717	1.978	2.232	2.878	2.822	2.822	3.800	1.783	Building Drier 9 to support current 7 year demand
	FERRO-CHROME	1.488	1.954	2.174	2.429	2.572	2.463	3.790	0.791	
	CHROME (DOMESTIC)	0.473	0.467	0.342	0.585	0.600	0.605	0.610	0.187	
	ROCK PHOSPHATE (EXPORT RICHARDSBAY)	0.297	0.334	0.288	0.435	0.168	0.534	0.160	0.102	
	MAGNETITE (DOMESTIC & RICHARDSBAY)	0.164	0.164	0.241	0.381	0.374	0.476	0.800	0.636	
	COAL (DOMESTIC - OTHERS)	0.362	0.285	0.810	0.318	0.310	0.310	0.310	0.048	
	CHROME (EXPORT DURBAN)	0.195	0.201	0.236	0.258	0.260	0.260	0.270	0.075	
STEEL & CEMENT	CHROME (EXPORT MAPUTO)	0.026	0.048	0.057	0.072	0.084	0.094	0.104	0.078	
	CHEMICALS	0.037	0.048	0.041	0.049	0.052	0.054	0.058	0.031	
	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	0.001	0.001	0.001	0.002	0.001	
	TOTAL MINERAL MINING & CHROME	21.532	26.311	24.434	28.891	28.230	31.567	31.883	13.811	
	COAL (DOMESTIC - OTHERS)	5.240	6.831	7.640	8.483	9.024	9.024	9.511	4.271	Driven by growth in other industries, e.g. steel, cement, sugar etc.
	CEMENT	4.545	5.204	5.661	6.111	6.265	6.272	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 aims 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	4.356	4.286	4.418	4.414	4.465	0.783	
	IRON ORE (DOMESTIC - SISHEN)	1.062	2.673	3.678	1.731	1.879	3.329	3.840	2.734	Increases in domestic steel production supported by government infrastructure development plan. Domestic and regional consumption of steel fueling demand for transport & raw material sector by Agate from Thabazimbi to Mpumalanga.
	COMMODITIES NOT CLASSIFIED IN GROUPS	1.774	1.848	1.837	2.330	2.407	2.784	2.879	1.108	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	1.851	1.916	2.188	2.417	2.501	2.497	2.395	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 - RICHARDSBAY)	1.659	1.109	2.358	2.112	2.159	1.155	2.160	0.521	
	IRON ORE (EXPORT MAPUTO)	0.000	0.000	1.832	1.945	1.999	3.919	4.000	4.000	
	IRON ORE (DOMESTIC - THABAZIMBI)	1.265	1.287	1.718	1.841	1.819	1.879	1.900	0.435	
	STEEL (EXPORT - DURBAN)	0.460	0.560	0.634	0.847	0.912	0.937	0.937	0.477	
	STEEL (DOMESTIC)	0.339	0.365	0.427	0.677	0.829	0.878	0.837	0.293	
	IRON ORE (DOMESTIC - BEESHOEK)	0.203	0.215	0.247	0.319	0.278	0.270	0.270	0.047	
	STEEL (EXPORT - RICHARDSBAY)	0.078	0.084	0.088	0.104	0.104	0.104	0.105	0.017	
	IRON ORE (DOMESTIC - POSTMAKERSBURG)	0.003	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	
STEEL & CEMENT	TOTAL STEEL & CEMENT	21.434	26.831	28.967	31.229	30.418	33.894	35.479	17.824	
	TOTAL INDS	61.112	70.445	72.772	75.146	74.683	78.454	78.262	38.641	

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Loco	OPEN FLIGHT										Runups and upgrades on same pt										Offs drops in from various year, Canadian south part									
Type	Class	1911	1912	12/19	1914	14/15	16/18	1917	17/18	18/19	1919	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	31/32								
6E	GE	12																												
	GE1	183	183	75	25																									
7E	7E	57	57	58	58	29																								
	7E1			48	48	48	48		48	48	34																			
	7E2	43	43	45	45	23																								
	7E3	55	55	55	55	55		55	55	38	55	55		55	55	55	54	43	32	21	10									
	7E4						17	17	17	7																				
8E	8E	58	57	37	37	37	25	13																						
9E	9E																													
10E	10E	45	45	45	45	45	45	15	45	15	45	45		45	45	45	45	45	45	45	45	45								
	10E1	30	30	37	39	41	58	54	58	58	58	58	58	58	58	58	58	58	58	58	58	58								
	10E2	17	17	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22								
11E	11E	1	1	1	1	1	11	23	19	19	19	19	19	19	19	19	19	19	19	19	19	19								
12E	12E																													
14E	14E	1	1	1	1	1	1	1	1																					
	14E1	7	7	7	7	7	7	4	1																					
15E	15E																													
16E	16E	596	525	587	617	597	727	727	727	52	532	582		532	482	432	382	302	262	232	182	132								
19E	19E																													
20E	20E																													
20E	NewE																													
21	31 GE																													
22	32 GE																													
23	33 GE	17		5	8	8	5	5	8	3	5	5		5	5	5	5	5	5	5	5	5								
24	34 GE	197	173	199	199	204	199	178	150	156	75	28																		
	34 GM	65	65	118	118	124	111	95	79	79	79	79	79	79	79	79	79	79	79	79	79	79								
28	36 GE	43	43	39	39	39	34	32	26	3	18	10	2																	
	36 GM	110	110	107	107	107																								

⁸ The increasing proportion of copex to opex in locomotive maintenance is a function of changes in accounting procedures as a greater proportion of maintenance is capitalised according international accounting standards.

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The new locomotives such as the 15E, 19E and 43D cannot be directly compared to the older locomotives as the new locomotives have not seen five full years of service but even making allowance for the shorter service, the savings in maintenance costs is evident.

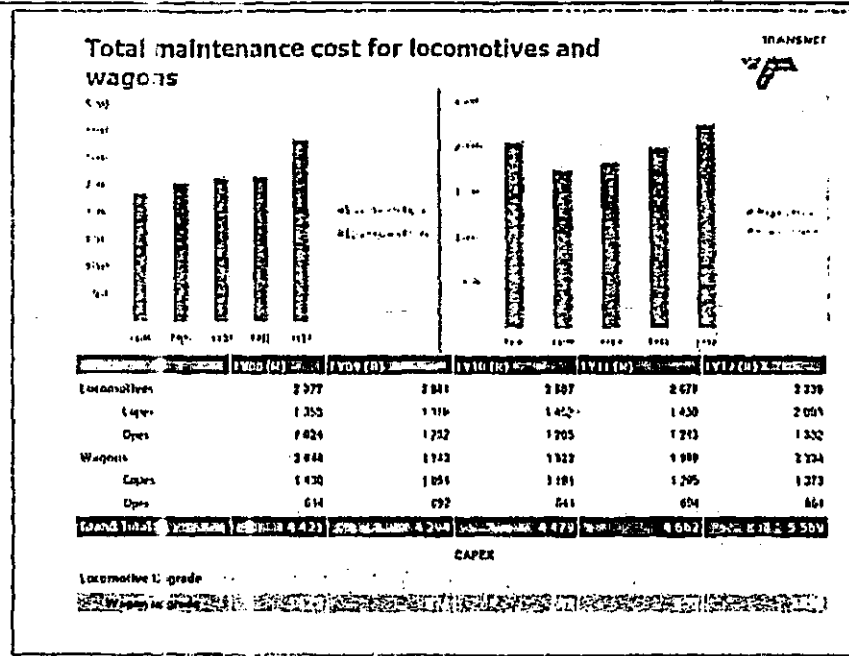
The three locomotives (excluding the new locomotives) with the best ratio of NTK/Cost of Maintenance are the heavy haul locomotives 9E, 11E and 7E1.

The workhorse locomotives that have a poor NTK/Cost of Maintenance ratio include the 18E, 6E 34-000, 34-400 series.

The locomotives that have the worst NTK/Cost of Maintenance ratio include the 37-000, 7E2, 34-800, and the 33, 35 and 36 classes. These are amongst the oldest locomotives.

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1. EXHIBIT 50



TFR has exhausted the life extension possibilities of its current "workhorse" fleet which are the primary contributors to GTK / NTK. Extending the life of "shunters" and "haulers" does not contribute to increasing GTK / NTK as the locomotives are not used and cannot be used for the heavy loads of main line operations.

The SMILIP programme for new traction power was developed circa 2002. When this programme was not accepted TFR responded by extending the life of the current workhorse fleet.

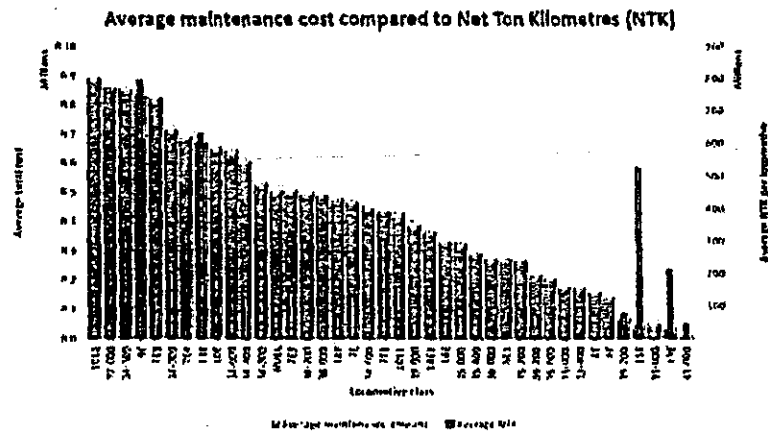
The life extension / upgrade programme included:

- E50 6E1 series upgrade to new class 18E providing a 12-15 year life extension. 120 upgrades are still to be completed by March 2016. By 2018 the first of the upgrades will start to run out.
- 150 class 34 GE locomotives programmed for fitting with new Britestar Control systems with 55 still to be completed. As the locomotives are already over 35 years old this is a palliative.
- 75 class 34 GM locomotives fitted with new Nexsys Control Systems. A further 20 are programmed for 2013. As these locomotives are already 38 years old, this decision will be reconsidered in anticipation of the new locomotives.
- Other interventions were more essential maintenance than life extension strategies. The above programs result in extend the run out age from a designed 30 years to 45 years.
- The locomotives suitable for upgrade / life extension have already all being targeted. The balance of the fleet does not lend itself to similar interventions.

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EXHIBIT 51

E & Y Locomotive class comparison
Maintenance cost vs. NTK for the last 5 years



4. Locomotive 7-year locomotive requirement

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GFB 7 YEAR LOCOMOTIVE REQUIREMENT													
GROUP	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
ED461	183	172	114	41									
7RE	506	521	662	744	760	715	715	663	615	561	515	463	
7E	64	66	47	42	41								
7E1	0		21	23	23	46	46	46	46	46	46	46	46
7E2	32	34	34	34	34	34	34	34	34	34	34	34	34
7E3	11	65	65	65	65	65	65	65	65	65	65	65	65
7E4	18	54	57	51	54	55	55	55	55	55	55	55	55
7E5	30	30	4	4									
10E1	23	25	26	26	26	53	53	45	45	45	45	45	45
10E2	59	58	62	62	62	62	62	62	62	62	62	62	62
14E1	8	8	8										
15	13												
16	115	188	188	188	188	142	142	142	170	120	120	120	120
17	82	90	94	94	94	94	94	94	94	94	94	94	94
18	69	69	74	77	76	75	76	76	76	76	76	76	76
19	70	96	93	93	96	96	96	96	96	96	96	96	96
20	87	90	90	98	98	98	98	98	98	98	98	98	98
21	81	94	94	92	92	92	92	92	92	92	92	92	92
22	16	30	30	30	25	25	25	25	25	25	25	25	25
23	34	38	38	38	38	38	38	38	38	38	38	38	38
24	15	50	50	50	50	50	50	50	50	50	50	50	50
25	34	62	113	113	113	126	119	113	113	113	113	113	113
105 NEW	0			83	179	279	363	523	461	515	515	515	515
106	0			41	202	332	462	599	671	721	721	721	721
Total	1041	1041	1078	8146	3387	2442	2592	2361	2782	2463	2423	2423	2423

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5. Deployment plan

EXHIBIT 52

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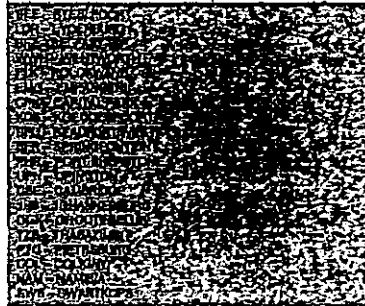
- ☐ GLOSSARY
- ☐ DEPLOYMENT PLAN 143X43D
- ☐ DOMESTIC AND EXPORT COAL BU
- ☐ STEEL AND CEMENT BU
- ☐ MINERAL MINING AND CHROME BU
- ☐ IRON ORE AND MANGANESE BU
- ☐ CONTAINERS AND AUTOMOTIVE BU
- ☐ AGRICULTURE, TIMBER, BULK LIQUID AND AFRICA TRADE BU
- ☐ BACKUP SLIDES
- ☐ IMPACT ON TFR & TRE

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EXHIBIT 53

GLOSSARY

MJS - MJESNA
 PRZ - PYRAMID SOUTH
 PHW - PHALABORWA
 NLP - NELSPOORT
 KMD - KAAPMUIDEN
 KTR - KOMATPOORT
 HLF - HALFWEG
 SLO - SALDANHA
 BLE - BELLVILLE
 KGR - KRUGERSDORP
 ELN - EAST LONDON
 NAS - NATALSPOORT
 WED - WELGEDACHT
 KAZ - KASERNE
 SBD - SASOLBURG
 MEI - MAFIKENG
 SPR - SPRINGS
 TIT - TRICHARDT
 BRP - BRAKPAN
 ISO - ISANDO
 BFX - BLOEMFONTEIN
 NWT - NOUPOORT
 HZL - HOTAZEL
 PMG - POSTMASBURG
 SEC - SEACONSFELD
 PCM - POTCHEFSTROOM
 BJL - BJLKOR
 MTN - METERTON
 NCS - NEWCASTLE
 DSL - DANKWAL
 DNR - DURBAN
 DER - DE AAR
 PE - PORT ELIZABET



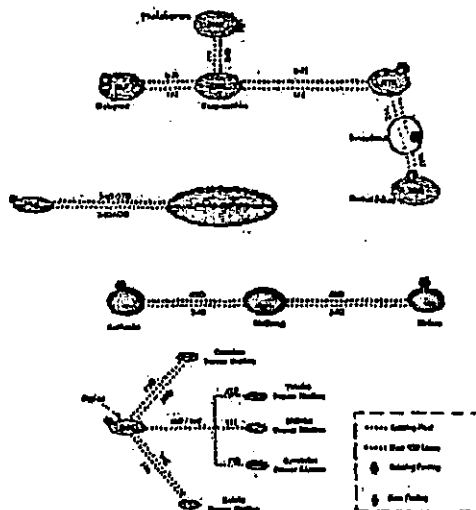
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EXHIBIT 54

43D Deployment Plan
Efficiency and Volume Growth

Financial year 11/12 - 13/14



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EXHIBIT 55

Cascading of 55x34D's from the Ore Line to GFB
period: Aug 2012 - Jan 2013

TRANSNET

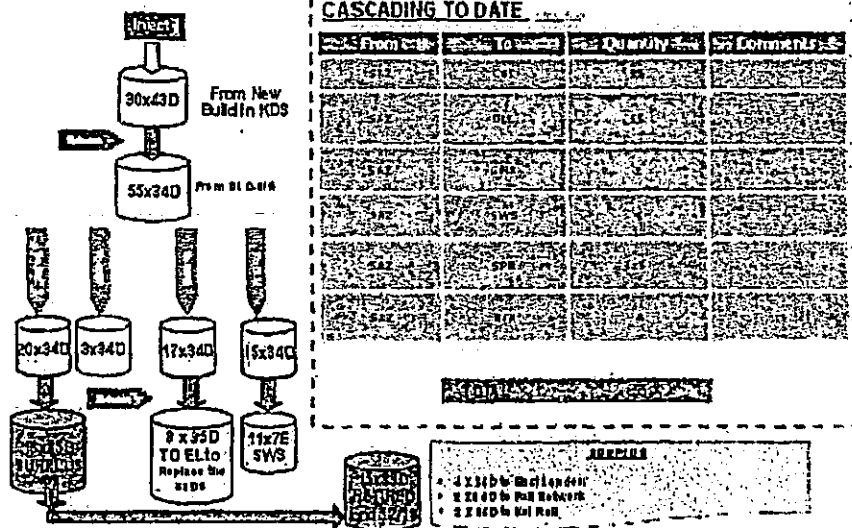


EXHIBIT 56

Schematic view of the deployment of new locomotives into the Coal Business Unit efficiency and volume growth

TRANSNET

Financial year 12/13 - 20/21

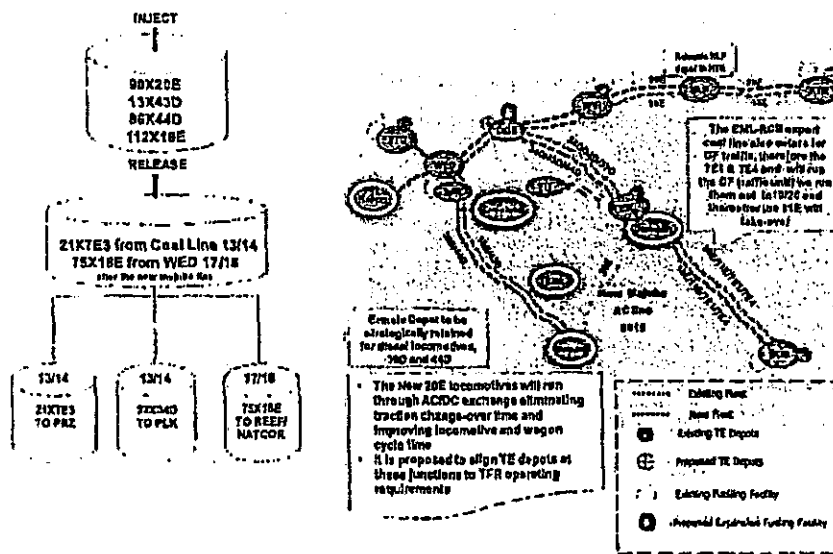


EXHIBIT 57

New Locomotives Deployment Plan
Efficiency and Volume Growth

TRANSNET



Financial year 12/13 – 20/21
High Level Delivery, Cascading and Run and Plan for the Domestic and Export Coal Business Unit

	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
Domestic Coal	110	110	110	110	110	110	110	110	110
Export Coal	110	110	110	110	110	110	110	110	110
Total	220	220	220	220	220	220	220	220	220

EXHIBIT 58

Deployment Strategy & Benefits : Coal

TRANSNET



Coal : RBCT

- The 19E's will be increased from 110 to 222 from 2015/2016 to 2016/2017. The following strategic changes are envisaged:
 - It is to be noted that the 222 x 19E's equivalent's will run from RCB to various mines directly with only driver hot-seat changes.
 - The process will start 2013/2014.
 - This will reduce the cycle time of locomotives from 58 to 41 hours and wagons from 82 to 48 hours.
 - This increases the volumes capacity of the current wagon fleet from 81 to 84.7 mtons.
 - By operating design all 19E's equivalent will be maintained in RCB.
 - This requires that all investment for maintenance at Emmale to be reviewed as this depot will be retained for diesel locomotives maintenance (39200's and 43D/44D's). Capacity has to be reviewed as the maintenance work content on these locomotives is considerably less than the current fleet.
 - Richards Bay will become a super maintenance depot. (Based on GF practices)
- Cascade 11E's to GF traffic by 2016/2017. This could reduce to zero based on dual power processing and the clear the deck position of the 10E's.
- The whole diesel fleet to be replaced by new diesels by 2016/2017.
- Provide for the Under Floor Wheel Lathe at Richards Bay as it will be a singular super locomotive depot for TFR.
- 67X Old Diesels (34D/37D) swapped with 43X New Diesels (43D/44D), however the figure will be reviewed.

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EXHIBIT 59

Deployment Strategy & Benefits : Coal

TRANSNET



General Freight

- General Freight traffic on the Coal line will be injected with 21 x 7E1 from the 1 May 2013. The figure will be increased to 48 by 2015/2016.
- The 7E1 and 7E4 that are ring-fenced for the Coal line general freight traffic will run-out in 2019/2020, however if the efficiencies from PRZ are realized this run-out will be earlier.
- The 7E3 will be cascaded to Pyramid South to capture the growth in Coal, Chrome and Ferrochrome from the Rustenburg area.
- All 7E3's will be cascaded to Pyramid South by 2015/2016.
- Note that with dual power processing, the 7E type locomotives will also be eliminated from the Coal line.
- All traffic from Waterburg area will be dual powered thereby removing the need for Pyramid South.

EXHIBIT 60

Deployment Strategy & Benefits : Coal

TRANSNET



- The following are the benefits:
 - Reduced fuel consumption with new diesel locomotives being introduced
 - Improved cycle times for rolling stock
 - Improved reliability
 - Better utilisation of crews
 - Reduced handling and shunting
- Impact on Crew and Maintenance depot
 - Richards Bay to be the Super Locomotive Maintenance depot
 - Standardise the Ermelo depot to few locomotive types, specifically diesels (39200's, 430's and 440's)
 - Training crew on the new locomotives
 - Ermelo yard strength and crew strength will be reviewed to the new operating standards
 - Book off at Ermelo will be reviewed as some loading station can take 200 wagon trains straight in
- Necessitated required changes
 - System cannot afford to run a 41 hour and a 56 hour cycle as it will not be seamless and will be somewhat counter-productive.
 - This will then require the 10E1's to be converted to dual power for a one type 41 hour operation.
- Financial Impact Analysis
 - Savings due the introduction of the new operating model from 1 September

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Financial year 12/13 – 20/21

[illegible]

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EXHIBIT 63

Deployment Strategy & Benefits : SAC

TRANSNET



General Freight

- The introduction of the dual locomotives at Pyramid South will see all flows from origin to destination on the AC/DC route running with single type of locomotive. Flows such as Chrome to Richards Bay; Coal & Iron Ore to Newcastle and Verseniging, Cement to Polokwane and including over border traffic. This will eliminate traction change over at Pyramid South and Ermelo there by improving cycle time and enhancing asset utilisation.
- The efficiency of 20E's will play an important role in the release of 7E locomotives to areas where they are needed or for early run-out to reduce the cost of maintenance.
- Electrification of the section between Thebasimbi and Grootegeluk become vital for dual loco system, hence the need to fast track to 2015/2016
- The expectation is that once the dual 20E's are deployed it will negate the need for 10E1's in its current form, this calls for the 10E1's to be upgraded to dual powered.

Impact on Crew and maintenance depot

- Koozesport diesel depot required to be down scaled as the number of diesels will be reduced.
- Thebasimbi no longer required as a maintenance depot
- Retraining of crew on new routes.
- Introduce new book-off practices.
- Pyramid South to be a run through yard with minimum processing for maize trains, cement trains etc.
- The new electric locomotive will be running to Richards Bay, Newcastle, Bujibar and Durban, therefore these areas need to prepare for the maintenance of these locomotives.
- Upgrade the coligny depot to increase its scope of work and down-scale activities in Sentsstrand depot.
- Polokwane to be a 20E and 44D depot
- Newcastle to be a 20E depot
- The yard capacity at Pyramid will require to be reviewed

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EXHIBIT 64

Deployment Strategy & Benefits : SAC

TRANSNET



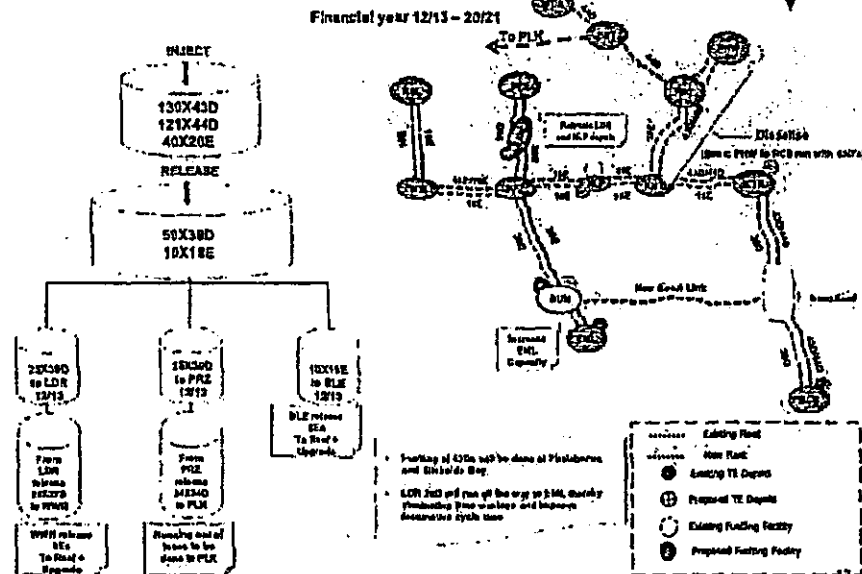
Financial Impact Analysis

- Pyramid yard strength to be addressed
- Cycle time from Laphatale to Richards bay will be reduced conservatively by 30 hours
- This impacts on wagon requirements for the these tons to be calculated
- Fuel savings from replacing old diesels with new
- Pyramid South and Rustenburg yard no longer needed as holding yards, parking of Pyramid South 7E2's and 7E3's, Kugersdorp 34D and the Polokwane 34D's: SAVINGS

EXHIBIT 65

Schematic view of the deployment of new locomotives into the Mineral Mining and Chrome Business Unit Efficiency and Volume Growth

TRANSNET



Transnet Freight Rail
1064 Locomotives Team

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New Locomotives Deployment Plan

High Level Delivery, Cessing and Run out Plan for the Mineral Mining and Chrome Business Unit

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Deployment Strategy & Benefits : MMC

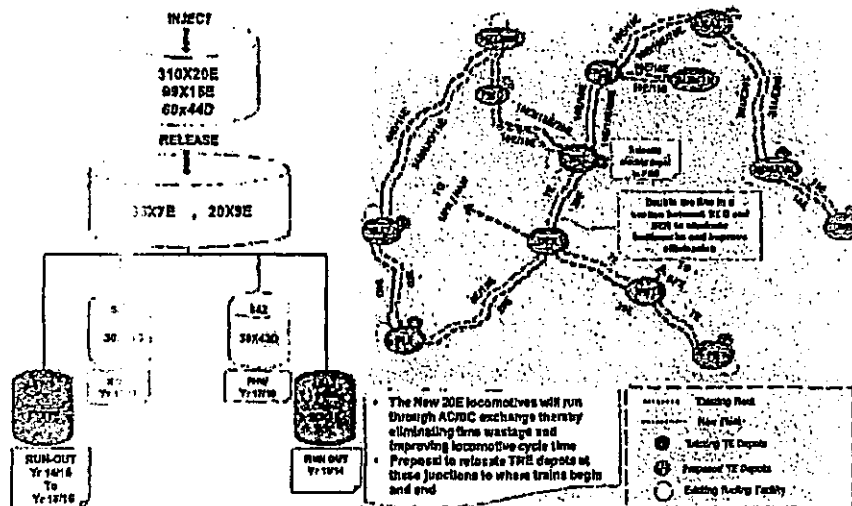


- Note the original deployment was 89 locomotives for required MDS tons, based on the efficiencies achieved this was dropped to 79 locomotives for the same tons. The GTKs was achieved in advance of what the business case stated.
- Increase the 82 x 430's at Phaleborwa to 79 to capture the growth in Magnetite and coal from Musina by 2013/2014.
- The locomotive cycle time has improved from 72 hours to 66 hours with the injection of the 430's
- Wagon cycle time has improved from 7 days to 6 days on the corridor.
- Deployed 380's at Lydenburg
- Eliminated locomotive change over at Belfast. Running the 380's all the way to Ermelo.
- A 100 wagon train was tested successfully between Lydenburg and Ermelo.
- Steelport to be 104 wagon RDP train
- Investigate the future growth plans for the Roosenekal area and keep Witbank depot in the meantime

- **Nelspruit**
 - Relocate the crew and maintenance depot at Nelspruit to Komatipoort
- **Komatipoort**
 - Komatipoort to have a 12 ton crane and a drop-pit.
- **Waterval Boven**
 - Relocate the crew depot Witbank and Komatipoort
- **Lydenburg**
 - The corridor has been standardised to 39D's only
 - Future maintenance to be done at Ermelo
 - Relocate Lydenburg as a Loco and Crew depot to Steelpoort

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Schematic view of the deployment of new locomotives into the Iron Ore and Manganese Business Unit Efficiency and Volume Growth
Financial year 12/13 ~ 2024



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New Locomotives Deployment Plan

Financial year 12/13 – 20/21

High Level Delivery, Cascading and Run out Plan for the Iron Ore and Manganese Business Unit

GR	Current Fin Yr 12/13	Fin Yr 13/14	Fin Yr 14/15	Fin Yr 15/16	Fin Yr 16/17	Fin Yr 17/18	Fin Yr 18/19	Fin Yr 19/20	Fin Yr 20/21
GR 1001				(10)	(10)				
GR 1002						(10)	(10)	(10)	(10)
GR 1003									
GR 1004									
GR 1005									
GR 1006									
GR 1007									
GR 1008									
GR 1009									
GR 1010									
GR 1011									
GR 1012									
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EXHIBIT 70

Deployment Strategy & Benefits : IOM

TRANSNET



Ore Line

- The Ore line 15E will increase from the current 44 x 15E to 76 x 15E by 2013/2014 financial. This will further be increase by 24 x 15E to meet the MDS volume budgets.
- The 30 x 9E will be reduce to a rough figure of 4 to cater for GF traffic on the Ore Line and mine shunting requirement. This will address the Saldanha Coal service and the containerised manganese to Saldanha.
- An injection of 30 x 43D's will be used to on the long trains due to power supply constraint. This will also improve reliability and fuel consumption.
- The 34 class diesels will reduce to 30 x 34D's to cater for other GF traffic, infra and shunting purposes.
- By 2017/2018 all diesels on the Ore Line to be replaced by the new 44D diesels

General Freight Lines

- The deployment of the new electric dual powered locomotives will bring benefit in the manner in which trains are operated. The new AC/DC locomotives will have the capability to run through the interchange at Beaconsfield and Beaufort West thereby eliminating traction change over time.
- The dual powered locomotives for Postmasburg depot will service both the PMG-PE route and the Gauteng-Cape Town/PE route with Swartkops being the super depot.
- Swartkops 7E's retired in 2016/2017, 33XPBZ7E2 cascaded to Swartkops to be retired in Swartkops the 2016/2017.
- 10E/2 to be converted to dual power locomotives and this will impact positively on the cycle times.

Impact on Crew and Maintenance depot

- Beaconsfield maintenance depot no longer required
- Investigate the possibility of De Aar as a book-off place
- Postmasburg to be the a critical turn around locomotive maintenance depot.

EXHIBIT 71

Deployment Strategy & Benefits : IOM

TRANSNET



Financial Impact Analysis

- Car and container trains to Kaalfontein and Kezama from PE will have an improvement in cycle time of 10 hours.
- Further fuel saving will be achieved with moving the combination of 15E and 34s to 15E and 43000, this is approximated to be around 1M litres
- Yard capacity to be reviewed at Kimberly due to run through and only hot seal changes.
- Parking of SWS 7E by 2013/2014

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EXHIBIT 72

Deployment Strategy & Benefits : IOM



Financial Impact Analysis

- ✓ Car and container trains to Kaalfonlain and Kazerne from PE will have an improvement in cycle time of 10 hours.
- ✓ Further fuel saving will be achieved with moving the combination of 15E and 34s to 15E and 43000. This is approximated to be around 1M litres
- ✓ Yard capacity to be reviewed at Kimberly due to run through and only hot seat changes.
- ✓ Parking of SWS 1E by 2015/2016:

EXHIBIT 73

New Locomotives Deployment Plan
Efficiency and Volume Growth

Financial year 12/13 – 20/21

High Level Delivery, Cascading and Run out Plan for the Container and Automotive Business Unit

	Current FY12/13	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21
Container	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Automotive	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Other	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600

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EXHIBIT 74

Deployment Strategy & Benefits : CAB

TRANSNET



General Freight

> Kazern/City Deep

- Postmasburg/Swardkops 20E locomotive fleet will cater also for the corridor to Cape Town. This will improve the container services between Gauteng and Cape Town
- Reviewing the containers to Port Elizabeth to run via Beaconsfield, including the motorcars.
- This will improve on the assets cycle time thereby eliminating traction change overs at Beaconsfield and Beaufort West.

> Impact on Crew and maintenance depot

- Retraining of crew on the new locomotives.
- Introduce book-off where feasible.
- Bulville to be major depot while Kaserne becomes a supporting depot for the new electric locomotives.
- Review viability of Wentworth maintenance depot considering maintenance cycle times of 440's versus 37D's and the 37D failures rates.

> Financial Impact Analysis

- Fuel savings when replacing 340's with 440's
- Parking of Wentworth 37D by 2017/2018 and Bloemfontein 340 by 2017/2018; SAVING

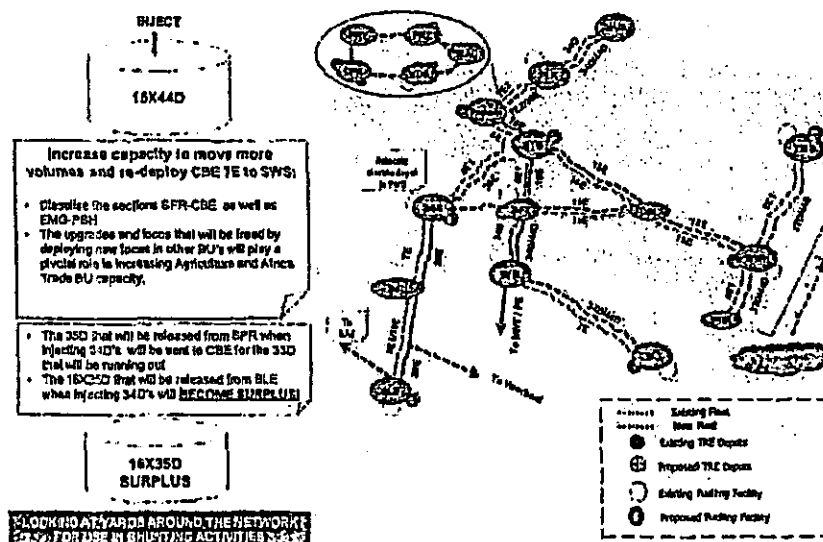
EXHIBIT 75

Schematic view of the deployment of new locomotives into the Agriculture, Timber, Bulk Liquids and Africa Trade Business Unit Efficiency and Volume Growth

TRANSNET



Financial year 12/13 - 20/21



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EXHIBIT 76

New Locomotives Deployment Plan
 Efficiency and Volume Growth

TRANSNET



Financial year 12/13 – 20/21

High Level Delivery, Cascading and Run out Plan for the Agriculture and Africa Trade Business Unit

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
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EXHIBIT 77

Deployment Strategy & Benefits : ABL

TRANSNET


General Freight

- > The Santroand depot will start to receive 18E's from 2013/2014.
- > The 6E locomotives will be phased out by 2016/2017, with the rest upgraded to 18Es.
- > Dieselise the Springfontein to East London and make Springfontein a run through yard.
- > The depots under ABL will be standardised to 18E's on DC areas.
- > The Polokwane 340 retired in 2020/2021 as we receive new diesels.
- > Beaufort West no longer required as a change-over yard

Impact on Crew and maintenance depot

- > Retraining of crew on the new locomotives.
- > Introduce book-off where feasible.

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6. Business unit power sheets

See attached power sheer excel file "20130418 Supporting Document F6 Business Unit Power Sheets"

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7. NPV analysis

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
WACC		12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
Discount factor		0.89	0.79	0.71	0.63	0.56	0.50	0.44	0.39	0.34	0.30	0.26	0.23	0.20	0.18	0.16	0.14
Volume (t)		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Volume (t) x WACC		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Volume (t) x Discount factor		89	79	71	63	56	50	44	39	34	30	26	23	20	18	16	14
Present Value to Start of Fin Year 2014																	
Total volumes (t)		91	104	127	153	181	210	240	270	300	330	360	390	420	450	480	510
Incremental Volume (t)		1	7	21	41	60	77	92	108	125	142	159	176	193	210	227	244
Tariffs Average (R/Tonkm)		0.42	0.45	0.48	0.50	0.54	0.58	0.64	0.70	0.77	0.84	0.91	0.98	1.05	1.12	1.20	1.28
Average distance (Kilom)		552	551	553	553	553	542	542	542	542	542	542	542	542	542	542	542
Revenue		509 364	272 145	325 517	328 647	343 717	341 954	405 840	454 543	524 681	601 156	686 141	779 546	881 141	991 141	1 109 141	1 235 141
Total Diesel TCO		22 060	21 761	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739	21 739
Initial capital outlay		1 114	1 513	2 709	2 974	3 053	3 180	3 300	3 415	3 525	3 630	3 730	3 830	3 930	4 030	4 130	4 230
Disposal value		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fuel		8 617	83	451	824	1 213	1 713	2 004	2 214	2 395	2 556	2 697	2 820	2 940	3 057	3 170	3 280
Maintenance		1 649	1	24	43	124	220	327	386	459	531	607	680	750	817	880	940
Personnel costs		3 029	0	180	216	219	220	221	222	223	224	225	226	227	228	229	230
Insurance		49	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Emissions		182	0	9	17	26	35	42	50	58	66	74	82	90	98	106	114
DK Hedging costs (included in purchase price)		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Electric TCO		11 769	318	1 974	4 951	5 352	5 480	5 670	5 815	5 934	6 025	6 090	6 130	6 150	6 160	6 160	6 160
Initial capital outlay		12 252	318	1 974	4 951	5 352	5 480	5 670	5 815	5 934	6 025	6 090	6 130	6 150	6 160	6 160	6 160
Disposal value		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fuel		2 801	0	21	117	137	177	240	285	325	355	375	390	400	410	420	430
Maintenance		1 724	0	0	1	17	79	152	215	266	306	336	356	366	376	386	396
Personnel costs		3 401	0	17	110	275	468	681	912	1 152	1 392	1 632	1 872	2 112	2 352	2 592	2 832
Insurance		53	0	0	2	3	8	12	17	22	27	32	37	42	47	52	57
Emissions		531	0	3	19	48	80	117	164	210	256	302	348	394	440	486	532
DK Hedging costs (included in purchase price)		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Contingency adjustment to corporate plan		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Wagon costs		22 463	3021	3455	3773	3714	3945	4178	4380	4559	4715	4840	4945	5040	5125	5200	5265
Purchase cost		10 017	3021	3417	3482	3128	2553	2473	2400	2330	2260	2190	2120	2050	1980	1910	1840
Capex		1 583	3	23	70	151	242	319	391	457	515	563	604	640	670	700	727
Opex		968	3	17	48	55	142	190	218	232	240	247	254	264	274	283	297
Total Infrastructure costs		14 893	1305	1171	1117	1172	1218	1263	1308	1353	1398	1443	1488	1533	1578	1623	1668
Expansion		9 513	1014	2 717	3 378	3 023	3 082	3 047	3 000	2 953	2 906	2 859	2 812	2 765	2 718	2 671	2 624
Capex and replacement Capex		5 378	60	344	795	1 249	1 627	1 817	2 013	2 055	2 097	2 139	2 181	2 223	2 265	2 307	2 349
Overhead costs		28 910	112	640	1 354	1 779	2 405	3 147	3 890	4 633	5 376	6 119	6 862	7 605	8 348	9 091	9 834
Net cashflow before tax		10 857	-5546	-10 772	-13 077	-10 553	-13 071	-14 766	-16 375	-17 973	-19 571	-21 169	-22 767	-24 365	-25 963	-27 561	-29 159
28% Effective Tax costs (negative in profit)		2 958	1 550	3 011	3 573	2 754	3 529	4 234	4 939	5 644	6 349	7 054	7 759	8 464	9 169	9 874	10 579
Cashflow after tax		7 899	-7 096	-13 783	-16 650	-13 307	-16 600	-20 000	-21 314	-23 617	-25 920	-28 223	-30 526	-32 829	-35 132	-37 435	-39 738

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8. Risk register

No	Risk description	Impact	Consequences	Control	Control
1	Change Management Risk	Ineffective change management in implementing the strategies as encompassed in the	<ul style="list-style-type: none"> Lack of buy in from labour Lower employee morale Employee resistance Retention of people 	<ul style="list-style-type: none"> Lack of understanding as to the business need for the changes Ineffective communication resulting from the communication 	None Pending deployment plan approval
2	Volume Risk	Volumes that associated with the new delivery (1064)	<ul style="list-style-type: none"> Loss of Revenue (R70.9m) Loss of Tenancies 	<ul style="list-style-type: none"> Current planned numbers may be difficult for local production and suggest annual income of 1064 units and 70 units in 2015 	<ul style="list-style-type: none"> Close monitoring of the delivery schedule 1064 units
3	Planning Risk	Ineffective life cycle planning	<ul style="list-style-type: none"> Techniques not matured as a result of the uncertainty and complexity of the fleet Project falling behind schedule Understand system Inability to deliver the fleet as per the plan 	<ul style="list-style-type: none"> Severely underestimating the contractual complexities Aiding additional requirements and complexities in the contract Longer approval processes causing delays and mismatch between scheduled deployment and operational requirements Non alignment between rolling stock planning with planning and technology planning There is an inherent risk in the increase in number of GEMs. The number of GEMs used for locomotives increases the acquisition time for design and testing, and increases the contractual complexities Unrealistic timelines creating undue pressure on fast tracking the time taken for design and testing Lack of co-ordination and integration between the various Capital projects Protracted negotiations TFR lack of capacity to manage contracts Lack of capacity / capability from the supplier to execute contracts within the required time frame Ineffective lifecycle planning 	<ul style="list-style-type: none"> Standard agreement with a standardised technical specification 1064 units as per contract Improved approval process of prototypes prior to planned builds where of demand (Wagons & HGV's upgrades) Signed off key requirements specifications (Wagons) Alignment of fleet deployment plan according to traffic flow Procurement controlled by capital procurement strategy Aggressive delivery forced by accelerated payment regimes None None Contract Management process Project Management, contractual terms for termination and contract penalty clauses Availability of the fleet Deployment plan

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Key Elements	Risk	Impacts	Causes	Controls
Market Risk	Anytime that the commercial sector that the agency and locomotives are sold for do not achieve the anticipated market growth	<ul style="list-style-type: none"> • Damages not matching as a result of the overvaluing and volatility of the fleet • Project team being behind schedule • Underplanned system 	<ul style="list-style-type: none"> • Low of cash and high customer demand • The anticipated customer demand does not materialize • The customer demand exceeds planned demand • not obtaining the right wagon mix for the right volume of commodities at the right time 	<ul style="list-style-type: none"> • Annual budget review of the demand (Demand M) • Logistics integration function (monitors asset performance & specific resources) • Annual budget review of the demand (Demand M) • Financial KPI focusing on asset utilization (Return on Investment) • Annual/Quarterly review of the build programme to align TE factories (wagon fleet)
2. Team Risk	Loss of customer time to build, maintain, project design and with the new fleet	<ul style="list-style-type: none"> • Delay in the execution of the fleet plan • Delay in project schedule/ deployment • Underplanned system • Poor design holding issues 	<ul style="list-style-type: none"> • Insufficient new generation technology maintenance team • Team differs not adequately equipped to update the new fleet • Inadequate transfer of knowledge at time from the OEM to Transnet • Lack of project management skills 	<ul style="list-style-type: none"> • Maintenance staffing plan • Succession plan & training with SOI • Team drivers are trained in accordance with training plan • Training to build the contact with the suppliers to learn the maintenance (TMS) on the new technology • Project management skills plan • Efficiency improvement initiatives
3. Logistics Risk	Impact of Eskom generation capacity shortage on the fleet plan Impact of other factors at major supply plants	<ul style="list-style-type: none"> • Project delay commissioning • Power shortages • Cost overruns • Scope creep 	<ul style="list-style-type: none"> • Eskom's inability to secure long term servicing contracts • Indisposition from major suppliers • Earthquakes • Floods • War • Sanctions or trade restrictions the world countries • Component prices going up 	<ul style="list-style-type: none"> • Energy saving initiatives • Establish Energy Efficiency Forum • High level engagement with Eskom as it plans to address shortage of capacity (including contractual agreements with Eskom) • Complete list of TFR project submitted to Eskom • Contract clauses • Contract - Model the force majeure clauses • The force majeure is valid for 12 months of which allows Transnet can terminate contract or apply breach of contract terms • SLA with suppliers of TFR • TFR and TFR annual price review and escalation in TFR

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No.	Key Elements	Issues	Causes	Controls
7	Governance Hub	<ul style="list-style-type: none"> Longest Approval processes Treasury note on supplier development has introduced uncertainty 	<ul style="list-style-type: none"> Delay in the execution of the fit Long lead time in obtaining approvals per PFMA requirements by DPE 	<ul style="list-style-type: none"> Proper approval/governance processes
8	Operational Readiness	<ul style="list-style-type: none"> Ready to integrate new fleet into operations (readiness of the entire supply chain) 	<ul style="list-style-type: none"> Lack of strategic Poor return on investment Delay in deployment Underestimated capacity Lack of capacity by School of Rail School of Engineering & curriculum readiness (2100) Lack of maintenance capacity (Facilities and Personnel) at TE Lack of capacity & facility alignment with TPT & Customers Lack of any business technology plan Lack of Rail network maintenance capacity, poor condition of the track Inadequate systems to support the operability of the fleet post deployment (Existing IT related systems) Lack of proper handover of the asset in operations and maintenance Impact of the deployment plan on the organisation is first & HP once the deployment plan has approved 	<ul style="list-style-type: none"> OR Implementation guidelines and Training approach & guidelines Maintenance Philosophy and Deployment Plan Customer relations management Technology plan Rail Network Maintenance Plan IT Plan and contracts Disaster Handover policy Change Impact & assessment 1 year maintenance plan (100)
9	Maintenance Hub	<ul style="list-style-type: none"> Ready to take maintenance and build plan to the fleet plan 	<ul style="list-style-type: none"> Not meeting the delivery schedule Exceeding planned unit price Work not performed according to work instructions Support to asset on the 1000000 (current and new) maintenance work and programme, major fleet overhaul 	<ul style="list-style-type: none"> Delivery of materials planned ahead of demand Annual Quarterly review of build programme that aligns T&E factories Production hour at T&E gearbox Additional materials supplied sourced Some factories operating 24 hour shift to mitigate risk of delay in schedule Full roll out for major components Project management process Signed off URS
10	Technology Implementation Hub	<ul style="list-style-type: none"> No clear identification of the technology functional needs and user requirements specifications 	<ul style="list-style-type: none"> Inadequate understanding of the URS Inadequate process to define the URS Lack of the ownership to identify the technology functional needs (no clear URS) 	<ul style="list-style-type: none"> Project management process Signed off URS
11	Technology Hub	<ul style="list-style-type: none"> Deployment technology 	<ul style="list-style-type: none"> Wrong technology deployed Non optimal functional of the fleet Lack of knowledge and expertise to provide correct post-hoc technology 	<ul style="list-style-type: none"> Technology management section with support

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9. Fraud risk management plan

Activity	UAT	Appropriability	Impact	Control	Frequency	Responsible	Comments
Identify the risks associated with the 1064 locomotive acquisition process, which includes Fraud, LRA & Information Security		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Be project involved in the locomotive acquisition process become aware of Fraud and are able to identify indicators of possible fraud and report their observations effectively
Identify the roll-out of Supplier Integrity Risk to suppliers bidding for the supply of the locomotives		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Ensure this suppliers bidding for a supply of locomotives are being made aware of the Supplier Integrity Risk and be worked Ensure that suppliers bidding for the supply of locomotives sign the Supplier Integrity Risk as part of their contractual obligations with Transnet
Perform a Fraud Risk Assessment on the 1064 locomotive acquisition process		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Identify the risks associated with the locomotive acquisition process Ensure controls and action plans are in place to mitigate Fraud and corruption risks relevant to acquisition process
Establishment of a Locomotive Acquisition Steering Committee (LSC)		Forensic Champion					<ul style="list-style-type: none"> Ensure that there is oversight and that key stakeholders are held accountable in terms of their obligations in the locomotive acquisition process
High Value Gateway Review Process		Forensic Champion					<ul style="list-style-type: none"> Provide assurance that due process is complied with in the acquisition of the locomotives
Conduct a Conflict of Interest compliance check for employees involved in the 1064 locomotive acquisition process		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Determine compliance with the Declaration of Interest and Related Party Disclosure Policy Identify possible conflicts of interest
Conduct a GDS Compliance check for stakeholders involved in the 1064 locomotive acquisition process		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Determine compliance with the GDS Policy Identify possible incidents of non-compliance
Conduct a Disclosure of Authority compliance check for stakeholders involved in the 1064 locomotive acquisition process		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Determine compliance with the Disclosure of Authority & Authority Identify possible incidents of non-compliance
Perform Vendor Due Diligence on all entities that proposed for 1064 locomotives, including its assets, 3rd party business interests against its financial risk/loss and other disclosures		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Determine compliance with all Transnet related policies
Conduct Forensic and Risk Assessment on all external stakeholders involved in the 1064 locomotive acquisition process		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> Identify possible issues / corruption and corruption by stakeholders in the 1064 locomotive acquisition process
Review and enhance GDN site visit guidelines		Forensic Champion / TIA Forensic OD Leader					<ul style="list-style-type: none"> To ensure that dealings with GDNs are kept as open as possible during site visits by Transnet employees or agents

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10. 7-year man plan

	Yr12/13	Yr13/14	Yr14/15	Yr15/16	Yr16/17	Yr17/18	Yr18/19
Natcor							
Required	752	805	861	1025	1137	1205	1278
Available	408	408	408	408	408	408	408
Delta	344	397	453	617	729	797	870
Natcor?							
Required	218	231	247	294	327	346	367
Available	148	148	148	148	146	148	148
Delta	70	85	101	148	181	200	221
Coalline							
Required	783	838	898	1087	1184	1255	1330
Available	417	417	417	417	417	417	417
Delta	368	421	479	650	767	838	913
Ore line							
Required	156	167	179	213	236	250	265
Available	107	107	107	107	107	107	107
Delta	49	60	72	106	129	143	158
Capecc 1&2							
Required	598	640	685	815	904	959	1016
Available	426	426	426	426	426	426	426
Delta	172	214	259	389	478	533	590
Hockey stick							
Required	278	297	318	379	420	446	472
Available	191	191	191	191	191	191	191
Delta	87	106	127	188	229	255	281
Westco							
Required	128	137	147	174	194	205	217
Available	109	109	109	109	109	109	109
Delta	19	28	38	65	85	96	108
Northcor							
Required	236	253	270	322	357	378	401
Available	158	158	158	158	158	158	158
Delta	78	95	112	164	199	220	243
Sentrac							
Required	270	289	309	368	408	433	459
Available	208	208	208	208	208	208	208
Delta	62	81	101	160	200	225	251
Eastcor							
Required	212	227	243	289	321	340	360
Available	180	180	180	180	180	180	180
Delta	32	47	63	109	141	160	180
	Yr12/13	Yr13/14	Yr14/15	Yr15/16	Yr16/17	Yr17/18	Yr18/19
Required	3629	3884	4155	4946	5488	5817	6165
Available	3100	3100	3100	3100	3100	3100	3100

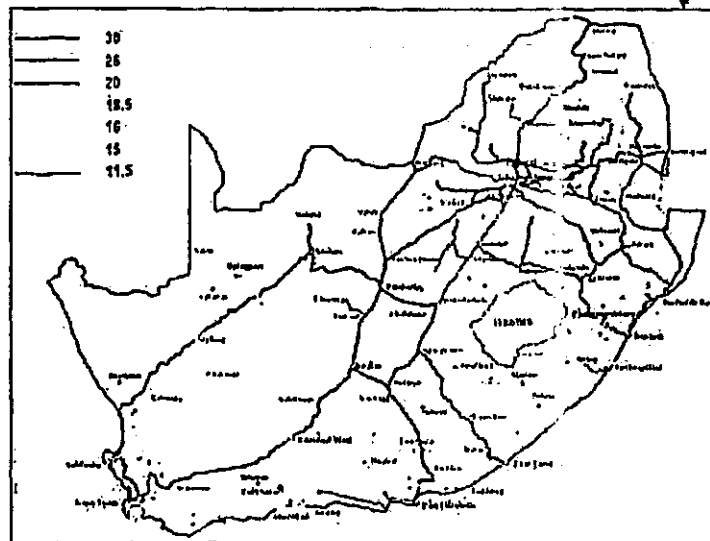
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Delta	529	784	1055	1848	2388	2717	3065
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11. Infrastructure plans

EXHIBIT 78

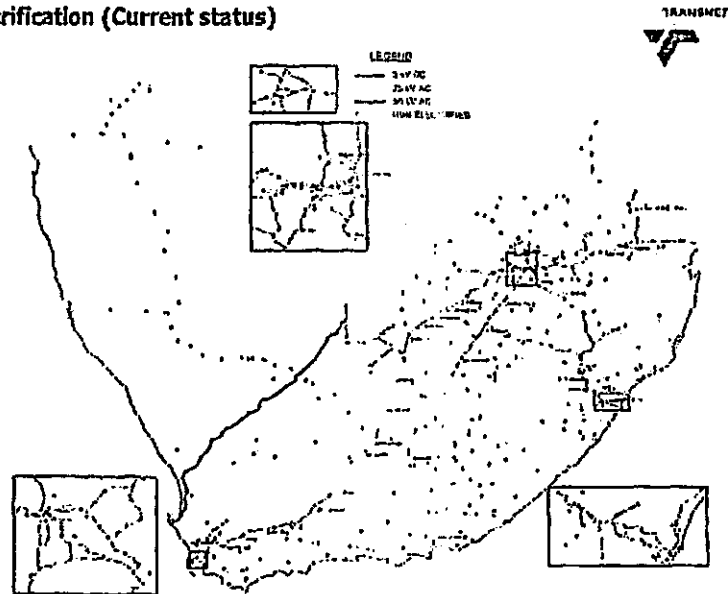
Track / Perway – Axle loading (Current status)



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EXHIBIT 79

Electrification (Current status)



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EXHIBIT 80

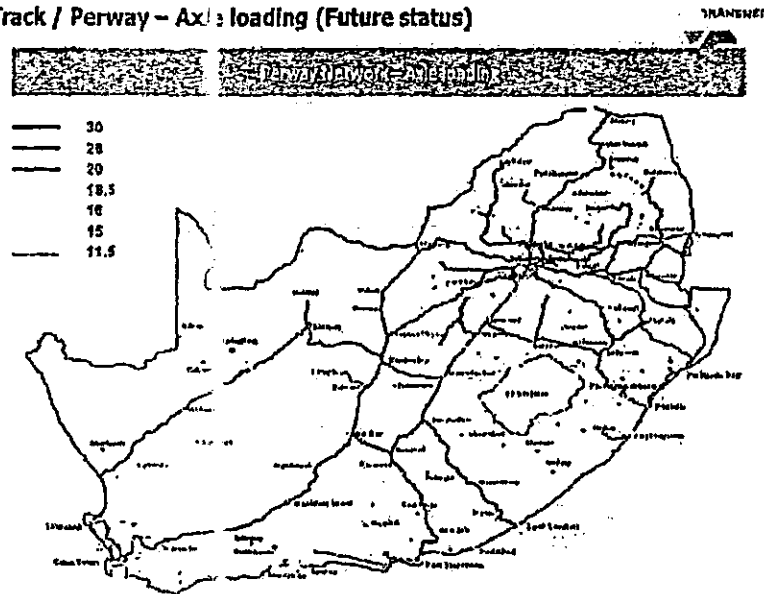
Expansionary Infrastructure expenditure timeline

Business focus	Preparation for growth (zero to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure expansion: Perway/axle loading	<ul style="list-style-type: none"> Increase axle loading Increase coal line capacity to 81mt Eskom 32mt project Partial doubling of RCB-Nbezi line Waterberg – Phases 2-5 additional passing loops Manganese 16mtpa (Hotazel – Coega) Swazi rail link 15mt Increase axle loading on Groenbult-Haedspruit 	<ul style="list-style-type: none"> Increase axle loading Increase coal line capacity to 81mt Coal 91mt project (including Overall tunnel doubling) Eskom 32mt project Gelukop line grade separation Line tripling Broodmeerspruit-Ermelo Waterberg – Phases 2-5 additional passing loops Manganese 16mtpa (Hotazel – Coega) One line Phase 2A to 82.5mtpa Swazi rail link 15mt 	<ul style="list-style-type: none"> Increase axle loading Overall tunnel doubling Coal 91mt project (including Overall tunnel doubling) Eskom 32mt project Line tripling Broodmeerspruit-Ermelo Swazi rail link 15mt Doubling of all critical deviations
Infrastructure expansion: Electrical	<ul style="list-style-type: none"> Increase electrical capacity on the AC section on the coal line Upgrade section Roodkop-Newcastle, Manganese 16mtpa New and Upgraded sub-stations and OHTE 	<ul style="list-style-type: none"> Manganese 16mtpa New and Upgraded substation One line Phase 2A to 82.5mtpa power upgrade (including OHTE) Increase electrical capacity on the AC section on the coal line Coal 91mt project Upgrade substations and electrical equipment Commence with the conversion of 3KV DC to 25KV AC Ermelo-Pyramid South 	<ul style="list-style-type: none"> Completion of the conversion of 3KVDC to 25KVAC Ermelo-Pyramid South Coal 91mt project Eskom 32mt project Upgrade substations and electrical equipment Waterberg – Phase 6 (23mtpa) commence with the electrification of Thabazimbi-Lephalale Conversion of 3KVDC to 25KVAC on Ermelo-Pyramid South
Infrastructure expansion: Signaling	<ul style="list-style-type: none"> Manganese 16mtpa 	<ul style="list-style-type: none"> Pyramid South – Lephalale Communication based authorisation (CBA) pilot installation Manganese 16mtpa 	<ul style="list-style-type: none"> Commence with the re-signaling of the coal line (CBA)

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EXHIBIT 81

Track / Perway – Axle loading (Future status)

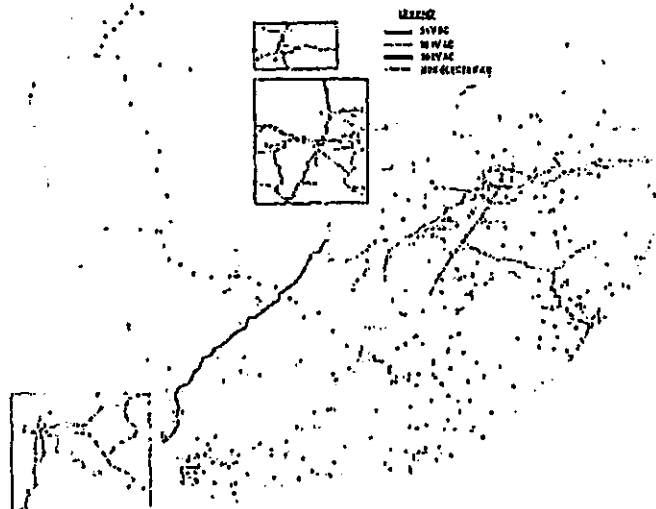


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EXHIBIT 82

Electrification (Future status)

TRANSNET



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EXHIBIT 83

Maintenance infrastructure expenditure timeline (1/3)

Business focus	Preparation for growth (two to five years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure maintenance sustaining Paroway	<ul style="list-style-type: none"> Increase on-track machines capacity and productivity Accelerated rail replacement (745km to 865km) Increase sleeper replacement (400 000 – 550 000/year) Increase ballast screening (690km – 750km) On line rail break mitigation plan, Wayside Intelligent Longstress measurement System (WILMA), Ultrasonic Broken Rail Detector System (UBRD) Longstress measurement system (WILMA) – Helicon and coal line Infrastructure sustains (General Freight business) tunnels and bridges Additional three rail lines Level crossing elimination/level crossing protection (new bridges/protection systems) Drainage rehabilitation Formation rehabilitation Install wheel impact monitoring and weight-in-motion (WIM-WIM) system 	<ul style="list-style-type: none"> Increase on-track machines capacity and productivity Accelerated rail replacement (865km to 1 065km) Increase sleeper replacement (550 000 to 650 000/year) Increase ballast screening (750 – 800km) Longstress measurement systems (WILMA) for core lines Infrastructure sustains (General Freight business) tunnels and bridges UBRD systems on General Freight business core lines Level crossing elimination/level crossing protection (new bridges/protection systems) Drainage rehabilitation Formation rehabilitation Install wheel impact monitoring and weight-in-motion (WIM-WIM) system 	<ul style="list-style-type: none"> Increase on-track machines capacity and productivity Accelerated rail replacement (1 065km to 1 200km) Maintain sleeper replacement at 650 000/year Increase ballast screening (800km – 850km) Longstress measurement systems (WILMA) for core lines Infrastructure sustains (General Freight business) tunnels and bridges UBRD systems on General Freight business core lines Level crossing elimination/level crossing protection (new bridges/protection systems) Drainage rehabilitation Formation rehabilitation

1

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EXHIBIT 84

Maintenance infrastructure expenditure timeline (2/3)

Business focus	Preparation for growth (zero to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure maintenance Sustaining electrical	<ul style="list-style-type: none"> Primary circuit breaker replacement Track breaker replacement Upgrade and replace switchgear (distribution sub) Traction substations 25-year lifecycle intervention Traction substations 50-year lifecycle intervention Sabotage/vandalism/theft projects 	<ul style="list-style-type: none"> Primary circuit breaker replacement Track breaker replacement Upgrade and replace switchgear (distribution sub) Traction substations 25-year lifecycle intervention Traction substations 50-year lifecycle intervention Sabotage/vandalism/theft projects 	<ul style="list-style-type: none"> Traction substations 25-year lifecycle intervention Traction substations 50-year lifecycle intervention Sabotage/vandalism/theft projects
Infrastructure maintenance Sustaining signalling	<ul style="list-style-type: none"> Consolidation of single manned cabins Centralisation of CTCs Subsystem replacement to extend life (e.g., replace track circuits, remote control systems, power equipment) Migrate systems from copper to optic fibre (coal line, Hangebeek corridor, Nelspruit, Sutherland area, Hooibosdorp - Meridorp) Installation of electronic interlocking systems (three pilot sites) Resignalling of Kameeldrift - Portmaburg Resignalling of Schalk - Wellington Resignalling of Umgeni - Sanger In-motion weighbridges Upgrade/replace measurement systems 	<ul style="list-style-type: none"> Centralisation of CTCs Subsystem replacement to extend life (e.g., replace track circuits, remote control systems, power equipment) Migrate systems from copper to optic fibre (Port Elizabeth - De Aar, De Aar - Wellington, Emagogen, Opiet) Rationalisation of signalling systems in the central region (Gauteng area) Renovating track layout and resignalling Gwelo area (Elsburg - Inda - Jupiter - Watter) Resignalling of Schalk - Wellington Resignalling of Umgeni - Sanger Replace PRL interlockings in the Karoo and Port Elizabeth Upgrade/replace measurement systems 	<ul style="list-style-type: none"> Subsystem replacement to extend life (e.g., replace track circuits, remote control systems, power equipment) Migrate systems from copper to optic fibre Replace PRL interlockings in the Karoo and Port Elizabeth Coal line Upgrade/replace the Vehicle Identification System (VIS) Resignalling projects on General Freight business lines commence

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EXHIBIT 85

Maintenance infrastructure expenditure timeline (3/3)

Business focus	Preparation for growth (zero to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure maintenance Sustaining telecom	<ul style="list-style-type: none"> Upgrade national optical fibre cable network Upgrade and replace access multiplexers Improve train communication in rail tunnels countrywide Provision of new telecommunication backbone infrastructure Train radios Phase 4 Replace unstable masts and towers De-zipper in Empanent, Emeto and Ogles 	<ul style="list-style-type: none"> Upgrade national optical fibre cable network Upgrade and replace access multiplexers Improve train communication in rail tunnels countrywide Provision of new telecommunication backbone infrastructure Train radios Phase 4 Replace unstable masts and towers 	<ul style="list-style-type: none"> Upgrade national optical fibre cable network Upgrade and replace access multiplexers

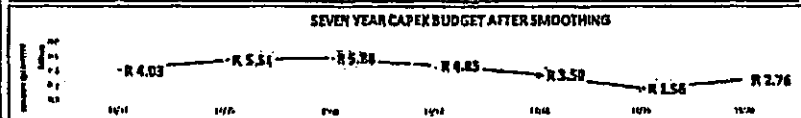
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12. Wagon requirements

EXHIBIT 86

5 PROPOSED CAPEX BUDGET OVER SEVEN YEARS AFTER SMOOTHING

Category	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Locomotives	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Wagons	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Rolling stock	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Infrastructure	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Other	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100



NOTES:

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13. Locomotive types and capacity

EXHIBIT 87

The GFB fleet currently has a total capacity of ~92 MGTK per year

Electric			Diesel		
Loco type	Number in fleet	Total capacity (MGTK p.a.)	Loco type	Number in fleet	Total capacity (MGTK p.a.)
6E	75	2,507	33	5	38
7E	216	23,224	34	318	7,689
8E	37	19	35	146	1,005
9E	0	0	36	167	244
10E	104	13,795	37	70	1,372
11E	1	130	38	38	827
14E	8	330	39	53	2,852
18E	597	34,026	43	53	4,235
Total	1038	74,031	Total	850	18,626

The current fleet is made up of 66 percent electric and 34 percent diesel with a total fleet size of 1,888 locomotives and capacity of 92 million gross ton kilometres per year. The active GFB fleet includes both the operational fleet and the fleet undergoing maintenance, but excludes mothballed locomotives. The operational fleet consists of the locomotives available for operations. Typically, 12 percent of the active fleet's locomotives are undergoing maintenance or minor repairs, but this varies depending on the level of reliability of individual locomotives and locomotive classes at any point in time.

The operational fleet is categorised into "shunters" and "workhorses." Workhorses are the prime movers, hauling loads between hubs, and generate the income earning net ton kilometres. They are TFR's inputs in locomotive efficiency measures. Shunters are primarily used to place and clear loaded wagons and compile trains before departure. Although shunters are not prime income earners, they are an essential component of operations and an overhead cost that must be covered.

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14. Locomotive specifications

Locomotives have a long lifespan and the technology is constantly evolving. Therefore, to maintain efficiencies and capacity, TFR needs to procure recently designed locomotive types that not only enable it to deliver on the Fleet Plan but also capture the aforementioned operational efficiencies.

EXHIBIT 88

General locomotive specifications

Locomotive feature	Electric		Diesel	
	25 kv AC and 3 kv DC		Diesel	
Energy source				
Maximum axle load (tonnes)	22		22	
Continuous tractive effort ¹	Bo-Bo	Co-Co	Bo-Bo	Co-Co
	267	400	267	400
Base speed	34		34	
Maximum operating speed (km/hr)	100		100	

1 Bo-Bo: 2521 kw at 34 km/hr and Co-Co: 3778 kw at 34 km/hr
SOURCE: 1064 Loco Business Case Annexure K- Locomotive Specifications

Exhibit 9, above, shows the high-level specifications of the locomotives to be procured. A major feature of the procurement is that it offers suppliers the choice of providing either Bo-Bo⁹ or Co-Co¹⁰ wheel configurations. It also requires the electric locomotives to run on both AC and DC lines given South Africa's gridline structure.

The proposed locomotives have significant improvements in engine design and lower pollutants per tonne kilometre. They are 8 percent more fuel efficient and are also more powerful, with a continuous tractive effort of 349 kN compared to the 218 kN of the class 34 diesels in dry conditions.

A direct comparison of class 6E and 18E to the proposed new locomotive is not possible. However, our knowledge of and experience with the recently delivered 19E and 15E suggest TFR can expect an electrical

⁹ Two-wheel configuration

¹⁰ Three-wheel configuration

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efficiency improvement of at least 18 percent, as well as regenerative capability that feeds power back into the Eskom grid. The design calls for a tractive effort between 267 and 400 kN, which is considerably higher than the 170 kN of the 6E series or the 200 kN of the 18E series.

15. Technology

The new locomotives will all be equipped with new technology which is currently being retrofitted to the existing fleet. The technologies are summarised below.

- Integrated Asset Tracking to track locomotives and wagons using a combination of tracking technologies including GPS and GPRS.
- Electronic Control Pneumatic Braking (ECPB). This enhances the current pressurised air brake system by sending an electric signal via a control cable simultaneously to all wagons to apply their brakes. This eliminates the propagation delay encountered in the traditional system where the signal is pneumatically transmitted from the locomotive down the length of the train. A result of this system trains brake more responsively and more evenly and safer. It is being implemented on all 200 wagon trains.
- Radio Distributed Power enables driverless locomotives to be placed within the length of the train and remotely control them from the lead locomotive. This enables longer and safer trains as the tractive forces are more evenly distributed along the length of the train. Coupler breakages because are reduced to being eliminated as the tractive forces are no longer concentrated at the leading locomotive consist.

This technology was pioneered on the Iron Ore Export Line and will be used in other heavy haul operations but will not be universally fitted.

- Cab based authorisation, control and communication systems. This cab mounted equipment provides an unobtrusive visual display to the driver with easy and intuitive controls and inputs. There are also interfaces to the locomotive controls providing automatic stop features in the event of over speeding or failure to adhere to a valid command.

All new locomotive designs will incorporate the design ergonomics of these systems and interfaces to the locomotive controls conception through to commissioning.

Retrofitting this equipment to existing locomotives almost always results in suboptimal ergonomic designs and control interfaces.

- Electronic Fuel Injection Engine Technology provides better green fuel efficiencies and higher power output using micro controllers that intelligently switches the engine on and off to eliminate excessive idling. Indications are that these could reduce the energy bill for these locomotives with up to 10 percent.
- Data Loggers report on the condition (health) of the locomotive fleet, thereby optimising maintenance and improving efficiencies in the maintenance of the locomotive fleet. It is planned

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that this information is transmitted back to the central locomotive control for maintenance planning and to analytically develop preventative maintenance measures.

- Trip Optimisers are being tested and evaluated for diesels and are being considered for electric locomotives. The Trip Optimiser results in significant fuel and energy savings as it computes the best match for the throttle / notch position of the locomotive to preloaded profile for the trip and running time to be achieved. Using the trip optimiser ensures that only the optimum power is applied at any one time and integrated over the trip, the minimum energy is consumed. As a stand-alone system with automatic throttle control, energy savings of 3 percent - 17 percent are indicated in the commercial literature depending on the locomotive type, track conditions and driver behaviour. Further savings are possible depending on the degree of integration into other systems such as Dynamic Brake Control, integration with Train Authorisation Systems and ultimately Movement Planning.

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16. Change management plan

Area	Scope	Responsibility and Plan
1. New Train Crew	Train 3065 drivers over life of MCS	<p>Responsible: School of Rail and Logistics Integration</p> <p>Current there is a capacity of 500 drivers and 500 train assistants per year. This will be continuously reviewed based on the following lean initiatives:</p> <ol style="list-style-type: none"> 1. One man crew project that will allow TFR to fast track trained assistants to become train drivers 2. Continuous Professional Learning program being put in place of the current relicensing program. This will reduce the relicensing program from 22 days per 2 years down to 8 days per 2 years as per international alignment best practices. 3. Improving train running times with the injection of the new, more reliable and operationally flexible fleet of locomotives will require a review of number of drivers required. 4. Create sufficient capacity for additional new recruits. <p>Caveat: start training immediately</p> <p>Plan:</p> <ul style="list-style-type: none"> • Training maximum number of drivers possible to close shortfall and create excess supply for years where SoR cannot meet demand • Supplement crew drivers by fast tracking trained assistants to become train drivers
2. Existing Train Crew	• Retrain existing crew onto new locomotives,	<p>Responsible: School of Rail and Logistics Integration</p> <p>Conversion takes place according to rollout</p> <p>Diesel – Diesel and Electric – Electric: 8 working days and three supervised "quarantined" trips under local section manager</p> <p>Diesel – Electric and Electric – Diesel: 15 working days and three supervised "quarantined" trips under local section manager</p> <ul style="list-style-type: none"> • Phalabora – Richards Bay: completed for class 43D • Saldanha – completed for Class 43D • Welgedag and Ogles – underway for Majuba
3. New train operating	• Consult train crew on new operating practice's	<p>Responsible: General Manager, Logistics Integration supported by Change Leadership</p> <p>Plan:</p> <ul style="list-style-type: none"> • Already implemented Phalabora – Richards Bay (Use lessons learned to prepare consultation materials) • Prepare consultation material based on deployment plan – end April 2013 • Prepare roll-out countrywide based on loco deployment plan. • Consult with labour on trains running through and by-passing yards, Crew change in-line. • Conduct face to face engagements with Train Crew Staff (Section Managers/Train drivers, Train Assistants and loco prep-crews) based on deployment plan timelines
4. Current Locomotive	<ul style="list-style-type: none"> • Electronic Control Pneumatic Braking • Radio Controlled Power • On Board Computers with speed profile and limit of authorisation movement control 	<p>Responsible: School of Rail and Logistics Integration</p> <p>Current technologies being further rolled out</p> <p>Plan:</p> <ul style="list-style-type: none"> • Plan developed to bring current drivers and personnel to the latest technologies being deployed • Continuously update training material with the later technologies being deployed to deliver new recruits to the new technologies • Included in conversion course where required. • Points above apply to School of Engineering

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5 New Locomotive Technologies - Driver		
5.1 Cab Based Authorisation	<ul style="list-style-type: none"> Similar to the On Board Computer but with additional features to fully replace lineside signalling systems 	<p>Responsibilities: Development: Technology Management Implementation: Capital Program Training Material: Technology Management (Technical Lead) Rail Directives (Train Working Regulations) School of Rail (Compile Training Material) Training: School of Rail</p> <p>Plan: As the new technology is rolled out by corridor, Not directly linked to the 1064 but will require retro-fitting as and when.</p>
5.2 Trip Optimisers	<ul style="list-style-type: none"> Computes the best match for throttle / notch position against preloaded speed and gradient profile 	<p>Responsibilities: Development: Technology Management Implementation: Capital Program Training Material: Technology Management (Technical Lead) Rail Directives (Train Working Regulations) School of Rail (Compile Training Material) Training: School of Rail</p> <p>Plan: Incorporated into driver training. As the new technology is accepted and rolled out.</p>
6 Locomotive Commissioning	<ul style="list-style-type: none"> Ensure sufficient skilled technical staff to receive and commission locomotives on delivery 	<p>Risk: Identified as a Key Risk Responsibility: Capital Program Plan: Sufficient skilled technical staff exist within Transnet, particularly in Transnet Engineering as Locomotive Fleet managers and similar. Identify the Transnet pool of skilled staff competent to commission / accept locomotives - Capital Program Compile commissioning schedule - Capital Program Initial liaison with TE for secondment of staff for the duration of locomotive commissioning process - TFA CE and TE CE Detail and dynamic liaison with TE according to delivery schedule - Capital Program</p>
7 Locomotive Planning TFR		
7.1 TFR - "Loco Control"	<ul style="list-style-type: none"> Monitoring and Oversight of locomotive planning and utilisation Accountable for locomotive allocation to Business Units Final accountability for locomotive utilisation Accountable for locomotives meeting maintenance schedules Receive, analyse and utilise info from on board Loco Monitoring System Receive, analyse and utilise info from wayside Acoustic Bearing Monitor System Direct extra-ordinary maintenance 	<p>Responsibility: General Manager, Logistics Integration</p> <p>Plan: Develop Staff structure - complete Approve Structure - Chief Opt Off - complete. Approve structure - CE and GM Human Capital - awaiting final signature Appoint staff - Target commence 1 June 2013 - complete Dec 2013</p> <p>Note: Many staff with requisite skills exist within Transnet and TE.</p>
7.2 TFR - Loco Resource Planning	<ul style="list-style-type: none"> Strategic, tactical and operational planning and deployment of locomotives Deviation monitoring and corrective action 	<p>Responsibility: General Manager, Capital Program and Information Technology for system capability General Manager, Logistics Integration for planning (see Loco Control) Business Units for operational execution</p> <p>Plan: Integrated Asset and Train Planning capability being revamped and upgraded - Capital Program - 24 months. (Business Case, Tender, Procure, Commission and Train, Implement)</p>
7.3 Loco Condition and Log	<ul style="list-style-type: none"> Current condition of locomotive Planned maintenance schedule Loco history 	<p>Responsibility: General Manager, Capital Program and Information Technology for system capability General Manager, Logistics Integration for operational use</p> <p>Plan: Integrate with TE systems Load maintenance programs Integrate with track and wayside monitoring equipment. Hot Box detectors In motion weigh bridge Acoustic Bearing Detectors</p>

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B Locomotive Maintenance TE		
9.1 Align maintenance par	<ul style="list-style-type: none"> Workshop new maintenance paradigm with TE 	<p>Responsible: CE TFR with CE TE on high level implications</p> <p>General Manager, Capital Program, COO and General Manager, Logistics</p> <p>Integration on practical implementation with their TE counterparts</p> <p>Paradigm: Time determined condition based maintenance, fit-on: fit-off, OEM / specialised repair of fit-on: fit-off components and not workshop repair, predictive analysis from monitoring systems, spares ready for called-in locomotive, technician to locomotive and not locomotive to workshop/depot, impact on skills, impact on staff numbers, impact on depots.</p> <p>Plan:</p> <ul style="list-style-type: none"> Workshop maintenance paradigms, skills transfer from OEM, skills training, staff requirements and workshop locations Plan engagement with Labour Complete in line with award process [Adjudication informs the process]
9.2 Skills	<ul style="list-style-type: none"> To have sufficient and proper skills in place to maintain new technology locomotives 	<p>Responsible: TE COO and GM Locomotives</p> <p>Supported by General Manager, Capital Program and General Manager, Logistics Integration.</p> <p>Plan:</p> <ul style="list-style-type: none"> In conjunction with OEM's, determine required skill set/s Informed by maintenance plans, determine number of technicians required and skills Assess current artisans for skills migration (from mechanic and electrician to diagnostician) Determine staffing per depot based on locomotive deployment (Two months after adjudication) Have technical support from the relevant OEMs for a defined period to ensure that maintenance activities remain relevant and to required standard. This ensures that there is a smooth transition of technology understanding as well as reducing the risk of fleet reliability diminishing due to poor quality maintenance.
9.3 Depots	<ul style="list-style-type: none"> To optimise maintenance depots based on maintenance workload and new practices 	<p>Responsible: TE COO and GM Locomotives</p> <p>Informed by General Manager, Capital Program and General Manager, Logistics Integration.</p> <p>Plan:</p> <ul style="list-style-type: none"> TFR Informs required maintenance facilities based on deployment and workload - done - see deployment plan TFR and TE align on final depot location, facilities required - end June 2013 TE consolidates depots to final plan - according to rollout and deployment and consolidation of current fleet.
9.4 Labour	<ul style="list-style-type: none"> Consult with labour on impact of maintenance practices and skills on staffing requirements 	<p>Responsible: TE COO and GM Locomotives</p> <p>Supported by General Manager, Logistics Integration and General Manager, Capital Program, Executive Manager Employee Relations</p> <p>Plan:</p> <ul style="list-style-type: none"> Workshop with labour based new maintenance paradigm and requirements (end July 2013) Ongoing consultation on affected depot by depot basis
9.5 Spares	<ul style="list-style-type: none"> To ensure correct and sufficient spares 	<p>Responsible: TE COO and GM Locomotives</p> <p>Supported by General Manager, Logistics Integration and General Manager, Capital Program</p> <p>Plan:</p> <ul style="list-style-type: none"> Determine spares holdings based on OEM maintenance schedules Initial spares supply to be negotiated as part of contract Adjust requirements based on practical experience With Procurement, set up mechanisms to minimise delivery delay On basis of pending maintenance work, ensure spares are on the workshop floor to await arrival of locomotive. Have full OEM support for the fleets deployed

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Project Authorisation Signatures

Transnet Freight Rail

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

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TO WHOM IT MAY CONCERN

CERTIFIED EXCERPT FROM THE DRAFT MINUTES OF THE SPECIAL MEETING OF THE TRANSNET BOARD OF DIRECTORS NO.13/3 HELD ON 25 APRIL 2013 AT 14:00 IN BOARDROOM 4623, 46TH FLOOR, CARLTON CENTRE, JOHANNESBURG

*6.1 Procurement of 1064 locomotives for the TFR General Freight Business

RESOLVED that the Board approved the following:

- The business case for the acquisition of the 1064 locomotives for TFR's General Freight Business at an estimated cost of R38.6bn as per the Corporate Plan (excluding potential effects from forex hedging, forex escalation, and other price escalations).

13/3/4*

Certified a true excerpt:

AYANDA CEBU
Group Company Secretary
Transnet SOC Ltd
Date: 26 April 2013

Transnet SOC Ltd
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Group Company Secretary: ANC Ceba

Mafika Mkwandzi, Chairman



Honourable Minister Malusi Gigaba
Minister of Public Enterprises
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Fax: 012 431 1039

Dear Honourable Minister Gigaba

**APPLICATION FOR SECTION 54 APPROVAL IN TERMS OF THE PUBLIC FINANCE
MANAGEMENT ACT ("PFMA"): ACQUISITION OF 1064 LOCOMOTIVES FOR
TRANSNET FREIGHT RAIL'S GENERAL FREIGHT BUSINESS**

Purpose

The purpose of this letter is to seek approval from the Shareholder Minister of our planned investment to acquire 1 064 locomotives for Transnet Freight Rail's General Freight Business (GFB). This is being done in accordance with the requirements of the PFMA and Treasury regulations and guidelines.

The Board of Directors at their meeting of 25 April 2013 approved the proposed investment. Transnet plans to acquire 1064 locomotives at an estimated total cost of R38,6 billion over the next seven years. This investment in conjunction with investing in related infrastructure and wagons will facilitate the planned ramp up in GFB volumes from 80mt to 170mt over the next seven years as anticipated in the Market Demand Strategy (MDS) which is aligned to Transnet 2013/14 Corporate Plan.

Transnet has been interacting with the Shareholder representatives as part of the stakeholder engagement strategy formulated for investments requiring Shareholder approval. The business case was presented to Transnet's various internal approval governance bodies, Capital Investment Committee, Executive Committee, Board Acquisitions and Disposals Committee and Board of Directors.

Governance

An enhanced governance process was devised for the approval of the investment to acquire 1064 locomotives for Freight Rail's GFB. This includes the establishment of a Locomotive Steering Committee (LSO) which is mandated by Transnet's Executive Committee and chaired by the Group Chief Executive Officer. The Group Chief Financial Officer, TFR Chief

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IS Slosana E Tshabalela DLJ Tshope A Singh* (Group Chief Financial Officer)
Executive *Indian

Group Company Secretary: ANC Cebhe

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Executive and Group Executive: Legal are some of the members of the LSO. The purpose of the LSO is to oversee the entire project in terms of the following:

1. Business case development
2. Recommendation of the business case for approval by the abovementioned approval bodies.
3. Procurement and tender process
4. Negotiating and contracting with the successful tenderer
5. Locomotive manufacture process and adherence to production deadlines and targets during the construction of the locomotives

In addition to the LSO the following has also been established.

A governance framework has been developed specifically for this transaction and includes:

- a. Highest standards of confidentiality, reinforced through the High Value Tender (HVT) process with oversight from Transnet Internal Audit
- b. A project management office has been set up at TFR with specific responsibilities of:
 - i. Tracking progress towards milestones,
 - ii. Establishing and owning a virtual data room based on best practice,
 - iii. Scheduling Steering Committee meetings at the Chairperson's request
 - iv. Following up on action items and
 - v. Ensuring confidentiality protocols are in place

Investment

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 average age of the current GFB fleet of 1 888 locomotives is 32 years. The design life of a locomotive is 30 years. No investment was made in locomotives between 1992 and 2008 and current acquisitions (50 like new, 100 diesels, 43 diesels and 95 electrics) fall far short of the market demand and road to rail migration initiative.

The two options explored include the 'do nothing' scenario which is economically unviable and does not support the volume growth expected in the MDS and will jeopardise the 2013/14 Corporate Plan. The only viable option is for Transnet to invest in the acquisition of the 1064 locomotives (599 electric and 465 diesel).

The new locomotive purchase will:

- a. Create value for Transnet by enabling:
 - i. TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS target.

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- ii. This will result in a positive NPV (R2,7 billion at the TFR hurdle rate of 18.56% and R34,1 billion at the TFR WACC of 12.56%),
- iii. Top-line growth
- iv. Enhanced return on assets (ROA), and
- v. An improved environmental footprint.
- b. 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.
- c. Create and preserve 28,000 direct and indirect South African jobs, and R68 billion in economic impact through local supplier development.

Benefits of the acquisition include:

- a. Improved operational efficiency:
 - i. Increased availability of fleet from the current 85% to 93%
 - ii. Improved reliability as newer fleet is less susceptible to breakdowns
 - iii. Increased tractive effort will result in fewer locomotives required to pull a similar length train
 - iv. Dual Voltage design enables trains to traverse AC and DC configurations avoiding the time consuming practice of changeovers.
 - v. Fleet standardisation will result in a simplified maintenance regime
- b. Create business opportunities for Transnet Engineering who will participate substantially in the localisation programme.

Benefits for the country include:

- a. Creation of R68 billion in localisation benefits for the economy as the Transnet local content requirement is 55% and 60% for diesel and electric locomotives respectively.
- b. Catalyse the sustainable development of a South African locomotive production industry based on the procurement of 1064 locomotives over approximately 7 years and an estimated on-going annual need of 80 locomotives driven by TFR's 30-year replacement life policy
- c. Development of manufacturing skills and creation and preservation of 28 000 direct and indirect jobs
- d. Improve road safety (fewer road fatalities) and general road condition by moving freight from road to rail.
- e. Environmental impacted in a positive way through reduced carbon emissions by the newer fleet.

Benefits to business include:

- a. Increased customer satisfaction as improved fleet reliability results in reliability and predictability of service which provides 'peace of mind' to customers.

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- b. Lowering the cost of doing business by aggressively pursuing a shift from road to rail as rail becomes more cost effective for transportation of freight for distances greater than 300km.

Programmatic procurement strategy

A robust procurement strategy and appropriate governance processes have been designed and instituted to ensure transparency, fairness, and value maximisation for Transnet. The procurement strategy for this project has been approved by the Board of Directors and include the following key aspects:

- a. Alignment to Government's socio-economic policy framework
- b. Developing skills, creating jobs and transferring technology through increasing the local content thresholds (55% for diesel and 60% for electric locomotives)
- c. Open tender process which will result in the broadest possible supplier base bidding for Transnet's business thereby maximising value for Transnet
- d. A six step evaluation methodology will be applied with the following criteria:
 - vi. Price 60% weighting
 - vii. Supplier development 20% weighting
 - viii. Broad-based Black Economic Empowerment 20% weighting.

Risks

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 to ensure that the risks to the company are mitigated. Some of the key risks identified include:

Risk	Mitigating actions/considerations
Volumes: volume risk has the greatest potential to impact NPV. A slight underperformance (7% versus MDS targets), Transnet would experience revenue shortfalls of R16.4 billion and a reduction in NPV of R1.7 billion. However, under the worst case scenario (growth of volumes in line with GDP) NPV would be reduced by over R20 billion.	<ul style="list-style-type: none"> • This reinforces the need for a flexible procurement and contracting strategy, allowing locomotives to be brought online as they are needed. • Take or pay contracts are to be negotiated and put in place.
Delivery schedule. TFR already has a shortfall of DC electrics, with the electric locomotive shortfall projected to grow to approximately 140 by 2015. Given the previously expected timelines to procure new locomotives locally, TFR may not be able to close this shortfall until the end of the MDS period. Under the base case (procurement in line with schedules stipulated in the RFP), R13.3 billion in MDS revenues would be at risk; this would triple under a moderately delayed scenario with further downside under the worst-case scenario.	<ul style="list-style-type: none"> • Procurement and production timelines are being tightly managed to ensure the swiftest possible locomotive delivery, and immediate mitigation strategies are being explored. These include front-loading orders with international suppliers and exploring leasing options. • Payment requirements to suppliers to incentivise delivery of locomotives.
Tariffs. The MDS GFB tariffs are expected to	<ul style="list-style-type: none"> • Cost reduction and efficiency

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Increase faster than CPI through 2020 (7% versus 6%). Given that the pricing on almost all GFB commodities is below the cost of full economic recovery even after taking into account all efficiencies, the pricing corridor in TFR's plan is achievable. However, should global and local economic conditions create challenges and tariffs above CPI cannot be implemented, the implication would be a reduction in the NPV of the business case by upwards of R4 billion.	improvement initiatives will need to be developed on a continual basis to ensure that the Transnet cost base is as lean as possible.
Foreign exchange exposure. The Rand's depreciation against the US dollar by 10% this year would increase the price for a transaction of this size by approximately R2 billion.	<ul style="list-style-type: none"> Transnet's Group policy on Financial Risk Management requires that all contracts must be either Rand-based or effectively hedged to minimise the risk of financial loss due to exchange rate fluctuations. Should a Rand-based contract not be possible, hedge accounting will be applied to manage any foreign exchange volatility. The project will be hedged according to the Group policy.
Locomotive purchase price. Additional locomotive price risks (e.g., change order risks related to detailed specifications). A purchase price increase of 10% would have a R1.5 billion impact on NPV.	<ul style="list-style-type: none"> Price risks need to be actively managed during contracting and negotiations

Funding

Funding of the acquisition of the 1064 locomotives (R38,6 billion) is included in Transnet's overall funding requirement of R86 billion over the next 6 years. Two thirds (R25 billion) of the funding requirement will be via cash generated from Transnet operations and the remainder (R14 billion) will be sourced through the Global Medium Term Note, Domestic Medium Term Note, Development Finance Institutions, and Export Credit Agencies depending on the most cost efficient option.

Business Integration

Operational readiness is critical to TFR, Transnet and the country extracting the benefits the acquisition is capable of delivering. Integration of locomotives with demand, wagons, infrastructure, operations other divisions where port interface is required is thus essential. In addition human resource development underlies all the other integration nodes and thus the training of more than 3000 train drivers and assistants is also a key project dependency.

A comprehensive information pack containing the following is attached for your ease of reference:


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- Board of Directors Resolution - Annexure A;
- Executive Summary – Annexure B;
- Business Case – Annexure C.

The ongoing consultation between Transnet and the DPE thus far as well as the information contained in this letter will enable the Honourable Minister to assess this request timeously. In addition this will enable the Committee established by the Honourable Minister to meet urgently to facilitate the approval process.

Please do not hesitate to contact my office if you require further clarity with regard to the proposed investment.

Kind regards


Mafika Mkwana
Chairman, Transnet SOC Ltd
Date: 30/04/2013

Mafika Mkwana, Chairman

TRANSNET



Honourable Minister Pravin Gordhan
Minister of Finance
Private Bag X115
Pretoria
0001

Fax: 012 315 5126

Dear Honourable Minister Gordhan

**NOTIFICATION: APPLICATION FOR SECTION 54 APPROVAL IN TERMS OF THE
PUBLIC FINANCE MANAGEMENT ACT ("PFMA") - ACQUISITION OF 1064
LOCOMOTIVES FOR TRANSNET FREIGHT RAIL'S GENERAL FREIGHT BUSINESS**

The purpose of this letter is to notify the National Treasury of Transnet's application to its Shareholder Minister (Department of Public Enterprises) of our planned investment to acquire 1 064 locomotives for Transnet Freight Rail's General Freight Business (GFB). This is being done in accordance with the requirements of the Public Finance Management Act (PFMA) and Treasury Regulations.

Transnet will acquire 1064 locomotives at an estimated total cost of R38,6 billion over the next seven years. This investment in conjunction with investing in related infrastructure and wagons will facilitate the planned ramp up in GFB volumes from 80mt to 170mt over the next seven years as anticipated in the Market Demand Strategy (MDS) which forms the basis of Transnet's 2013/14 Corporate Plan.

Transnet has been interacting with the Shareholder representatives as well as National Treasury representatives (Ravesh Rajlal and Luyolo Ntlangula) as part of the stakeholder engagement strategy formulated for Transnet's investment's requiring Shareholder approval.

A comprehensive information pack containing the following is attached for your ease of reference:

- Board of Directors Resolution - Annexure A;
- Section 54 Letter of Application to the Minister of Public Enterprises - Annexure B
- Executive Summary - Annexure C;
- Business Case - Annexure D.

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D Skosana E Tshabalala DL Tshabe A Singh* (Group Chief Financial Officer)
*Executive Indian

www.transnet.net

Group Company Secretary: ANC Cebal

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Please do not hesitate to contact my office if you require further clarity with regard to the proposed investment.

Kind regards


Mafika Mkwana

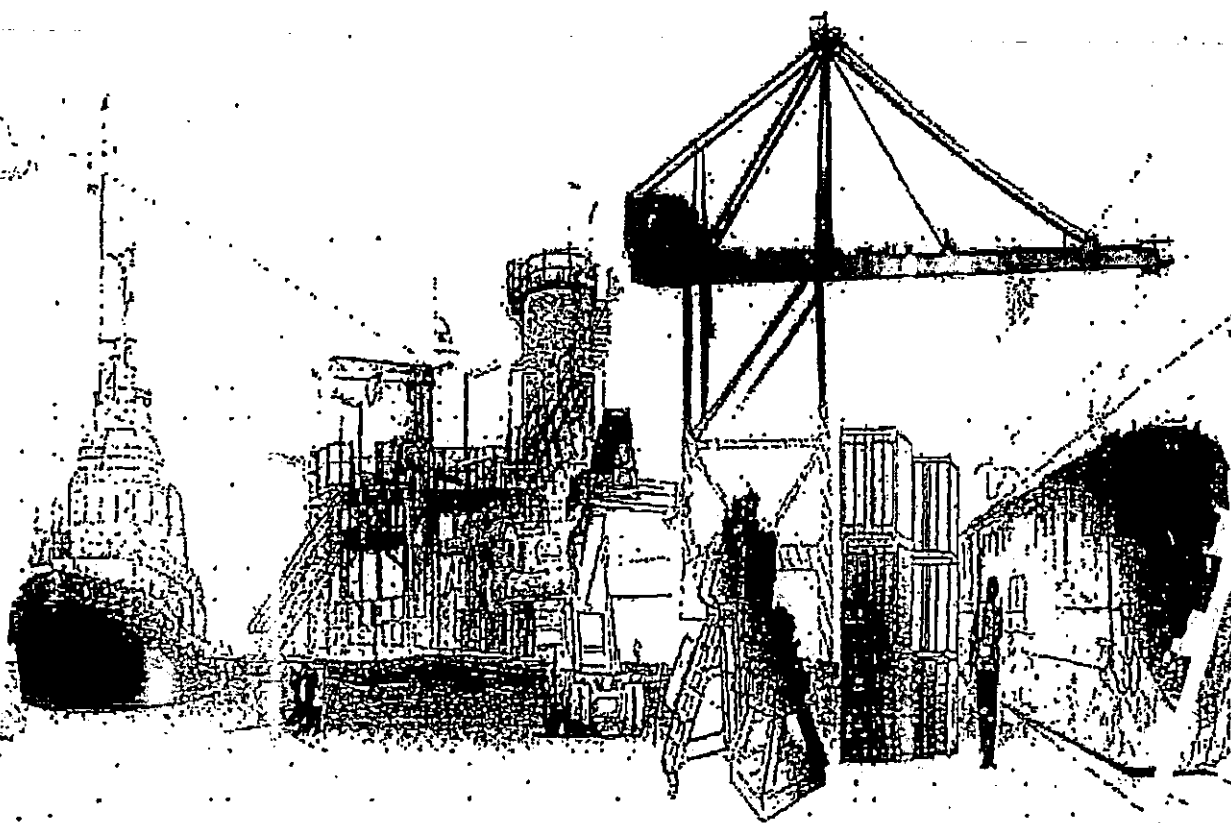
Chairman

Date: 30/04/2013

TRANSNET



Following freight



Investigation of allegations into irregularities in the
procurement and award of the 1064 Locomotive tender

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BACKGROUND

In 2012, Transnet embarked on the tender process for the acquisition of 1064 locomotives for the General Freight Business (GFB). The Request For Proposal (RFP) was issued to the market, bid responses were received and the process was evaluated. Four bidders were shortlisted for negotiations and contracts were subsequently concluded and awarded to China South Rail, China North Rail, General Electric and Bombardier Technologies on 17 March 2014. In terms of policies and procedures, Transnet requires that all procurement processes are fair, equitable, transparent, competitive and cost-effective.

In the last few weeks, several corruption and/or fraud allegations were made through the media about the process followed in procuring the 1064 locomotives and the awarding of the contract to the 4 suppliers.

Transnet is committed to a zero tolerance stance towards fraud, corruption and / or other economic crimes and is committed to acting professionally, fairly and with integrity in all of its business dealings and relationships, wherever it operates.

The Board of Directors in its endeavor to promote good corporate governance and ethical leadership, has appointed a legal firm to conduct an investigation into the alleged irregularities relating to the procurement and award of the 1064 locomotive tender awarded on 17 March 2014. The board has requested that an investigation be conducted in line with the following scope:

SCOPE OF WORK

The scope of work will address but not limited to the following:

1. Whether the process followed in procuring the 1064 locomotives was in compliance with the company's procurement policies and procedures as well as the applicable National Treasury Regulations;
2. To identify all persons, companies and timelines involved in the procurement process including identification of each person's role or company's role and the relationships thereof;

3. Review, verify and validate the submissions (relating to this the 1064 loco "Transaction") made to the Acquisitions and Disposal Committee (ADC) and the Board. Should there be exceptions noted, appropriate follow up investigation procedures should be implored.

4. As regards the price of the "Transaction", ascertain the reasons for the increase (if there was an increase) in the estimated total cost ("ETC") and whether such reasons are reasonable and/or justified; this will include an investigation into the allegations made in various media reports including (but not limited to) the allegations in the article by the Huffpost 09 June 2017 and also the allegations by the EFF summarised as follows:

RI 7.4billion of taxpayers' money was lost in inflated prices on the purchase of 1064 locomotives;

The money was lost to corruption during the procurement of the locomotives;

The EFF dossier points fingers at various people as having influenced the process; The final offers, per locomotive, to Transnet by the 4 suppliers after negotiations had taken place was as follows:

China North Rail: R27,360,000

- General Electric: R24,312,000

- Bombadier: R28,788,150

China South Rail: R28,900,900

However a month after negotiations had concluded, Gupta companies who served as advisers to Transnet proposed an accelerated delivery schedule and rocketed the prices from the suppliers and pocketing R10-million from each R50-million locomotive that Transnet is buying.

The Guptas entered through Regiments Capital and Trillion. When they started with their work, the prices shot up. Regiments Capital prepared a financial and risk analysis for Transnet. The analysis compares the costs of the original delivery schedule of the locomotives and an accelerated delivery schedule; It takes into account drivers and forex costs before arriving at a conclusion that an accelerated delivery schedule would be cheaper. They did not reduce prices but increased it and pocketed billions in the process through corruption.

5.

Establish whether prices were inflated after hedging, and determine whether contingencies and escalations were added.

6. Establish what governance processes were employed in implementing the "Transaction" and the appropriateness/effectiveness thereof;
7. Review of Transnet policies to the extent that the investigation recommends such;
8. Conduct interviews with the chairpersons of the various adjudication committees to ascertain the business case and/or motivation for the "Transaction" and their understanding of the financial and governance implications that are involved in the "Transaction" including their understanding of the price increase and governance of the "Transaction";
9. Interview the team that dealt with the Treasury/Financing package for the "Transaction".
10. Interview officials of the Secretariat of Transnet to understand their role in the safekeeping, access and distribution of all documents pertaining to the "Transaction";
11. Where necessary, interview all other parties involved in the negotiation of the "Transaction";
12. Investigate whether the existence of a contract between Tequesta, allegedly owned by Salim Essa and C&R Hong Kong;
13. Provide recommendations to Transnet on the findings that arise from the investigations and on the possible actions to be taken against anyone, if any;
14. Provide recommendations to Transnet on how to prevent further occurrences of the findings and on compliance with applicable government laws, rules, regulations, policies and procedures;
15. Present formal and informal written and/or oral opinions concerning the findings;

Duration of the investigation

The investigation will be for a period of 12 weeks (3 months), at the most, broken down as follows:

1. Planning and studying of documents: (2 weeks)
2. Analysis of evidence, interviews and consolidation of information: (8 weeks)

3. Formulating of conclusions and recommendations and report writing: (2 weeks)

The final report will be issued at the latest by 30 September 2017.

Appendix 6

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Exhibit of documentation that was requested from Transnet

1. The post BAFO memorandum prepared by the 6 man CFET team together with their file of working documents;

A copy of the Application to the Shareholder Minister for the Acquisition of 100 Dual voltage electric locos dated 10 April 2014;

2. The joint quotation referred to in a memorandum from Ravi Nair to Siyabonga Gama dated 19 May 2015;
3. All communication from TFR and/or Transnet to the author of the attachment including but not limited to any mandate or scope of appointment of ART;
4. Memorandum, submissions and minutes, which served before the steering committee on 12 December 2012;
5. High Value Tender working papers of TIA, SKX and Ernst & Young;
6. The duly signed business case- referred to in a memorandum from Anoj Singh to Brian Molefe at 29 April 2013, as well as all revision versions thereto;
7. The final submissions made by each of the four OEMs after the negotiation stage (see Item 41a of PWC letter dated 16 August 2017);
8. All the working papers, calculations and excel spreadsheets and other documents for each of items A to G referred to in the Molefe Memorandum to the Board dated 23 May 2014;
9. Expert opinion of David Potter regarding the business case (see Item 27 of Werksmans 1 September 2017 email);
10. All documents relating to the Involvement of Webber Wentzel (see items 4 and 20 on Werksmans 1 September 2017 email);
11. All reports, memoranda, notes or equivalent and all calculations, business cases / scenarios, working papers and excel spreadsheets relating to the proposal and decision TE was to be used by each of the suppliers;
12. All approvals in relation to the decision that TE be used by each of the suppliers;
13. Report backs by OEMs to Steering Committee – referred to in agreement signed with OEMs;

14. From TE (all this info should be readily available from the CFO or chief accountant of TE):

- a. Total Invoices to date from TE to each of GE, Bombardier, CNR and CSR;
- b. Total payments to date received by TE (including any prepayments) from each of GE, Bombardier, CNR and CSR;
- c. Total Gross Profit on invoices rendered;
- d. The total value of orders placed by each of GE, Bombardier, CNR and CSR with TE;
- e. The current status of each of the orders, with expected delivery dates and payment dates;
- f. TE's estimated GP in Rand and % based on its costings for each of the orders;
- g. Details of the total spend to date, and the recipients of payments for the move of the OEMs to Durban;
- h. How was the cost for the moves accounted for in the Transnet group financial statements?

15. Board approval of the points scoring system to be used for the evaluation of the tenders (per Yousuf Laher, he prepared the points scoring system but it was approved by the board);

16. We have almost no information from the negotiation phase e.g. proposals and counter proposals until price finally arrived at ~ other than CSR letter which provides a summary. We presume there must have been something in writing: proposals, emails letters, documentation, workings, in particular re the escalation and the hedging which was negotiated after the BAFO evaluation;

17. All communication from TFR and/or Transnet to the author of the attachment including but not limited to any mandate or scope of appointment of ART.

18. Recordings of or notes taken of the negotiations with the different OEM's held at the offices of Webber Wentzel. We were initially told that minutes were taken of the negotiations and recordings took place, these were said to be with TFR/ SCS.

We later received a host of recordings, which were inaudible, and in no particular sequence or explanation of who was involved in the discussion being recorded.

19. During the course of an interview with Yousuf Laher, he mentioned that he designed the evaluation criteria for the evaluation of the bidders, and that such criteria was approved by the board, we requested such approval as well as minutes of the said board meeting, this was never proffered.

20. Annexure K to both Diesel and Electric RFPs, annexure K being "locomotive specification"

☐ Still to be provided by GCS ☐ TFR ☐ Provided On USB
☐ Not on Werksmans' USB To be confirmed by GCS

1064 Locomotive Transaction Request: Index of information provided

Letter Content (Werksmans' Ref #: Mr H Jacobs/Ms O Murphy/om/TRAN2746.64/#5060873v1)

3.1 All minutes of the decisions to split the award to more than 2 successful OEMs as well as the minutes of the BADC, BOD and CAPIC evidencing these decisions. All submissions, memoranda and reports provided to these committees in the contemplation of this decision.

BOD 2015:

- 9.5a TIA Report 25 Nov 2015.pdf
- 9.5 Memo TIA Report 25 Nov 2015.pdf
- 7.9a DoA GCE 25 Nov 2015.
- 7.9 Memo DoA AGCE 25 Nov 2015.PDF
- 7.8b Revised DoA Framework (Without track changes) 25 Nov 2015.pdf
- 7.8a Revised DoA Framework (Tracked) 25 Nov 2015.pdf
- 7.8 Memo DoA Framework 25 Nov 2015.pdf Checked Out
- 7.1a Proposed 2016-17 Shareholder's Compact 25 Nov 2015.pdf
- 6.8c Draft 2016-17FY Shareholder's Compact 27 Aug 2015.PDF
- 6.8b 2015-16FY Shareholder's Compact 25 Aug 2015.PDF
- 6.8. Memo Proposed Shareholder's Compact 2016-17FY_27 Aug 2015.PDF
- 6.8a Draft 2016-17 Shareholder's Compact 27 Aug 2015.
- 4.2 Corporate Plan 2015-16FY.PDF
- 4.1 2015-16FY Shareholder Compact Final.PDF
- 4.1 2015-16FY Shareholder Compact Final 29 Jan 2015

BOD 2014:

- Item 8.4d 1064 GFB Locomotives Increase in ETC May 2014
- 6.3c Draft 2014-15 Shareholder Compact 13 Feb 2014.pdf

BADC 2015:

- 14 Transnet Engineering January 2015
- 5.6a PPPFA Preferential Procurement Regulations Instruction Note
- 6.6 Memo Status update of transactions approved by the GCE 23 Feb 2015
- 6.5 Memo Transactions approved by GCE20 Nov 2015.pdf
- 6.5 Memo Transactions approved by GCE20 Nov 2015
- 6.3a TFR 1064 Locomotive update 1 Oct 2015.pdf
- 6.3a TFR 1064 Locomotive update 1 Oct 2015
- 6.3(i) 1064 Locomotives Report 5 Nov 2015.pdf
- 6.3 Update on locomotives programme risk management 26 April
- 6.3 Memo Feedback on 1064 Locos Transaction 1 October 2015.pdf
- Select or deselect this item
- 6.3 Feedback on 1064 Locomotives 5 Nov 2015.pdf
- 6.3 Feedback on 1064 Locomotives 5 Nov 2015new
- 5.5 DoA Framework approved 28 August 2014 _ 30 February 2015.PDF
- 5.4(i) Revised DoA Framework 16 Aug 2015_1 Oct 2015.pdf
- 5.4(i) Revised DoA Framework 16 Aug 2015_1 Oct 2015.pdf

BADC 2014:

- 5.1 _ 5.2 465 and 599 Electric Locomotive Acquisition Feb 2014.pptx
- 6.6 Memo Status update of transactions approved by the GCE 23 Feb 2015.PDF
- 6.5 Transactions approved by GCE 21 August 2014.pdf
- 6.5 Memo Transactions approved by GCE 20 November 2014.PDF

① Still to be provided by GCS ② TFR ③ Provided On USB
④ Not on Workmans' USB To be confirmed by GCS

<ul style="list-style-type: none"> 6.3b Proposed Corrections to the 2014-15 Draft SH Compact _ 13 Feb 2014.pdf 6.3a Shareholder Compact 2014-15FY 13 Feb 2014.pdf 6.2b(2) Funding Plan 2014-15FY 13 Feb 2014.pdf 6.2b(1) 2014-15FY Funding Plan 13 Feb 2014.pdf 6.2a(2) MDS 1 Recon to Feb Board meeting final 13 Feb 2014.pdf 6.2a(1) Corporate Plan for 13 Feb 2014 BOD Mtg.pdf <p>BOD 2013:</p> <ul style="list-style-type: none"> Item 4.4 Presentation 1064 Locomotives 25 Apr 2013 new Item 4.4 Locomotives Procurement of 1064 Locomotives 25 Apr 2013.pdf Item 4.4 Locomotive Business Case 25 Apr 2013.pdf Item 4.4 (a) Memo to Loco Business Case 25 Apr 2013.pdf 9.4 Annexure D PPPFA application Gordhan to Gigaba 29 May 2013.pdf 9.4 - Annexure A 29 May 2013 _ Intervention with exemption - Mkwanazi to Gigaba.pdf 9.4 Annexure C PPPFA Gigaba to Gordhan 29 May 2013.pdf 9.1 GROUP EXCO STRUCTURE.ppt 8.3 ANNEXURE A 29 May 2013.pdf 7.5c Pre-Funding Annexure B 23 Oct 2013.pdf 7.5b Pre - Funding Approval- Annexure A 23 Oct 2013.pdf 7.5a Pre - Funding Approval 23 Oct 2013.pdf 2 1064 Locomotives Business Case 2 May 2013 dated 25 April 2013.pdf Board Submission _ 2 1064 Locomotives Business Case 25 April 2013.pdf 6.8c DOA Framework 29 May 2013.pdf 6.8b GCE DOA 29 May 2013.pdf 6.3 Shareholder Compact 13-14.pdf 9.4 Annexure B Legal Opinion PPPFA 29 May 2013.pdf 1 Memo 1064 Locomotives Business Case 2 May 2013.pdf 	<ul style="list-style-type: none"> 6.4 Status update 26 Feb 2014.pdf 6.4 Memo Status update of transactions 26 May 2014. 6.3a Locomotive Presentation 21 Aug 2014.pptx 6.2a Locomotive Presentation 21 Aug 2014.pdf 6.2.3 Locomotives acquisition (1) 26 May 2014.PDF 6.2.1a BADC Submission on Loco Impact - 26 May 2014.pdf 6.2.1 Memo Corporate plan and initiatives _ 1064 initiative 26 May 2014.pdf 6.1b Impact of Locomotive Dep on Cap Inv 31 March 2014.pdf 6.2 Feedback on locomotives 21 Aug 2014.pdf 5.9 Acquisition of 599 Electric Locomotives 27 Jan 2014.pdf 5.2 Acquisition of additional locomotives 27 January 2014.pdf 5.1 _ 5.2 465 and 599 Electric Locomotive Acquisition 26 Feb 5.1 Supply of 465 New Diesel Locomotives 27 January 2014.pdf 5.1 Locomotives Increase in ETC 26 May 2014.pdf <p>BADC 2013:</p> <ul style="list-style-type: none"> 4.8 PPPFA January 2013 BADC 7.5a Current status with regard to the 1064 locos 20 March 2013.pdf 7.5c 1064 Locomotives Gigaba - Mkwanazi - PPPFA Act from DPE 27 March 5.1c Procurement of 1064 locomotives for the General Freight Business-FINAL April 2013.pdf 5.4b - SD in Procurement Methodology Feb 2013.pdf 5.4 - BADC submission re PPPFA_13Feb2013(2).pptx 5.6a PPPFA Preferential Procurement Regulations Instruction Note.pptx 20120418 - Procurement of 1064 locomotives for the General Freight Business - FINAL 25 April 2013.pptx 7.5 Loco - Update to BADC pages 27 March 2013.pptx 1 Memo 1064 Locomotives Business Case 29 April 2013.pdf 7.4d Annexure C - Proposed evaluation methodology - PPPFA.pdf 7.4c Annexure B Opinion Vas Soni 27 March 2013.pdf 7.4b Annexure A Instructions to Counsel 27 March 2013.pdf 7.4a Memo SEN _ Memo PPPFA 27 March 2013.pdf
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☐ Still to be provided by GCS ☐ TFR ☐ Provided On USB
☐ Not on Workmans' USB ☐ To be confirmed by GCS

<p>BOD 2012:</p> <ul style="list-style-type: none"> Item 6.9.1 Delegation of Authority Framework as at 14 August 2012 6.9 Memo Delegation of Authority 29 August 2012.pdf Risk Appetite Statement Feb 2012.pdf Transnet Risk Appetite Framework Feb 2012.pdf Summary - Risk Management Plan.pdf Summary - Risk Appetite.pdf Summary - ERM Strategy and Framework.pdf Risk Management Plan 2012-13 (Feb 12).pdf Item 4.4 (a) Memo to Loco Business Case - Molefe - Board.pdf Item 4.4 Locomotives Procurement of 1064 Locomotives.pdf Item 4.4 Presentation 1064 Locomotives.pdf Item 08.15a Memo 1064 Locomotives - Approval process for the acquisition of 1064 13 April 2012.pdf 8.5 - Borrowing Plan 2012-02-08 (clean).pdf Item 08.15b 1064 Locomotives presentation (Annexure A).pdf 	<ul style="list-style-type: none"> 6.4a Memo Status update on the PPM and CPPPM 27 May 2013.pdf 5.7 95 Class 20E GFV Elec Locomotives Signed Memo 27 Sept 2013.pdf 5.7 95 Class 20E GFB Electric Locomotives 27 Sept 2013 5.4a Framework for the Sub-delegation 29 July 2013.pdf 5.2a Mitigation of MDS volumes at risk 27 Sept 2013.pdf 5.1b Procurement of 1064 Locomotives 23 April 2013.pdf 5.1a Procurement of 1064 Locomotives Memo 23 April 2013.pdf <p>BADC 2012:</p> <ul style="list-style-type: none"> 7.5c 1064 Locomotives 2 letters between Mkwana and Gigaba - Extension of the exemption 4.9 PFA 4 Oct 2012 BADC.pdf 6.3 The 1064 GFB Locomotive Acquisition 23 Jul 2012.pdf 7.5 Locomotives - Update to BADC pages v2.pptx Item 5.2 180 Class 6E-1 Locomotives.pdf BADC 6.1 Memo - Submission of the Tender Transaction approved by BADC_22 Nov 2012.pdf 6.4 and 1.5 - PPPFA and Borrowing plan 15 Feb 2012.pdf 6.2 Memo Update on tenders approved 28 June 2012.pdf 6.2 Approved Transnet action 28 June 2012.pdf 6.14 Debt Increase Request 26 January 2012.pdf 5.1 Delegation of Authority Framework 21 Aug 2012.pdf 5.1 Annexure A Delegations of Authority Framework Aug 2012.pdf 4.4 DOA 19 April.pdf 4.4 DOA 19 April 2012.pdf 4.1a 1064 TFR Locomotives 19 April 2012 4.1 1064 TFR Locomotives 19 April.pdf 6.2.3 Scope of TE in 1064 locomotive
<p>CAPIC 2014:</p> <ul style="list-style-type: none"> 8.4d 1064 GFB Locomotives increase in ETC 18 Jun 2014 <p>CAPIC 2013:</p>	<p>1064 (LSC) Locomotive Steering Committee:</p> <ul style="list-style-type: none"> 1064 ETC approval by Transnet Board_4 June 2014.pdf R301_Business case 1064 - Correspondence letters.pdf MINUTES - 18 APRIL 2013.pdf

④ Still to be provided by GCS ⑤ TFR ⑥ Provided on USB
 ⑦ Not on Werksmans' USB To be confirmed by GCS

<ul style="list-style-type: none"> • 8.2 - Procurement of 112 locomotives Coal Line 18 Jul 2013 CAPIC 2012: <ul style="list-style-type: none"> • Loco 1064 Invest Comm Presentation 19 March 2012 • Item 7.2 (a) Capital discussion 	<ul style="list-style-type: none"> • MINUTES - 19 AUG 2015.pdf • 1064 LSC MINUTES - 21 SEPT 2015.pdf • 1064 Loco Steercom 04-1516FY 20 November 2015.pdf • 1064 Group Loco SteerCom - TIA Report - 21 Jan 2016.pptx • 1064 LSC MINUTES - 18 APRIL 2013.pdf • 1064 LSC MINUTES - 19 AUG 2015
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ITEMS	RESPONSES
3.2 All written communication from the 4 successful OEMs in response to the clarifications issued by Transnet between December 2013 and February 2014.	<ul style="list-style-type: none"> • TFR should have provided (8 Sept 2017) • TFR Highlighted that they have provided the information already and would like to understand what is missing from what they have provided
3.3 The policy document styled "Tender Management Control Framework"	<ul style="list-style-type: none"> • We have PPM (there is no document titled Tender Management Control Framework)
3.4 The policy document styled "High Value Tender Protocol"	<ul style="list-style-type: none"> • Group SCS provided a copy (not Werksmans' USB)
3.5 The duly signed Business Case- referred to in a memorandum from Anoj Singh to Brian Molefe at 29 April 2013. As well as all revision versions subsequent thereto.	<ul style="list-style-type: none"> • TFR is following up on signed versions and they promised to provide once they managed to locate the document.
3.6 All correspondence exchanged between Transnet and the Minister of Public Enterprise for the period of March 2012 to April 2014.	<ul style="list-style-type: none"> • Note: some of these correspondence memos & letter are among the submissions contained under 3.1 above. • Approved letter to Minister Gordhan dated 11/03/2014 (with Annex B & C- submissions) • Letter to Minister Gigaba dated 30 April 2013 • Letter to Minister Gordhan dated 30 April 2013 + Submission and excerpt of the minutes
3.7 All correspondence exchanged between Transnet and the Minister of Finance and or National Treasury for the period of March 2012 to April 2014.	

<input type="radio"/> Still to be provided by GCS	<input type="radio"/> TFR	<input type="radio"/> Provided On USB
<input type="radio"/> Not on Werksmans' USB	<input type="radio"/> To be confirmed by GCS	

3.8	All correspondence exchanged between the Minister of Finance and/or National Treasury with the Minister of Public Enterprise for the period of March 2012 to April 2014 in which Transnet was courtesy copied.	<ul style="list-style-type: none"> Memo + Report (ETC increase) excerpt of the minutes dated 23 May 2014 Memo for final business case approval dated 29 April 2013 Approved memos for approval 17 Jan 2014 (Award for Electric Diesel). Page 7 & 8 of this memo address the motivation for split of business awarded. Certified excerpt on minutes. 6 step evaluation methodology is also attached to this memo. Memo, Approval to send letter to the Minister dated 21 Feb 2014 Award of Tender for 1064 (399 Electric and 465 Diesel) Locomotives Presentation to the Board Acquisition and Disposal Council (BADC) [BID results presentation (BAFC)]
4. Supplementary Documents		
4.1	The <u>mandates</u> issued to McKinsey and to Regiments from the LSC and/or the BOD and/or the GCE.	<ul style="list-style-type: none"> McKinsey Contract DOA Framework and GCE DoA under BOD 2013 & 2012 folders Will only be able to provide signed mandates for BOD and GCE once we have access to Carlton Centre We are still trying to locate the mandate for the LSC. However, note that we only had one meeting in 2013 and the 2nd meeting was in April 2015
4.2	The letters of appointment to the Cross Functional Negotiation Team.	<ul style="list-style-type: none"> TFR confirmed that they have provided the information. Note: There were no minutes for the evaluation. During evaluation, engineers will sign declaration of interests, do 3 evaluations and then provide a technical report once completed. That report has been provided to Werksmans. We have copies of the Declaration of Interests by the members of the CFNT) – not in Werksmans' USB
4.3	All submissions to the BOD including the memorandum dated 23 May 2014 from Brian Molefe to the BOD, as well as the minutes of the	<ul style="list-style-type: none"> Check USB content BOD Folder as indicated under item 3.1 above Note that there are also a few documents that are not on the USB collected. We will provide tomorrow (Nokuthula USB) Minutes will be provided once we have access to Carlton Centre

③ Still to be provided by GCS	④ TFR	⑤ Provided on USB
⑥ Not on <u>Werkmans'</u> USB	To be confirmed by GCS	

board meeting when it was resolved to approve the memorandum that served before the board.	
4.4 Minutes (not an excerpt of a minute) of BADC meeting held on the 25 April 2013.	• Will be provided ones we have access to Carlton Centre
4.5 Minutes (not an excerpt of a minute) of the Special meeting of BOD held on 25 April 2013.	• Will be provided ones we have access to Carlton Centre
4.6 Minute (not an excerpt of a minute) BADC meeting held on the 27 May 2013.	• Will be provided ones we have access to Carlton Centre
4.7 The undermentioned documentation, all of which are contained in an excerpt of the BOD meeting held on 29 May 2013	
• The approved Financial Risk Management Framework	• Approved by the Board on 29 May 2013 • Check policy Folder on USB
• Documents referred to in the Delegation of Authority Framework, attached as Annexure B including the followings:	• DoA will be under "DoA" folder and some copies as part of submission under 3.1 above
• MOI + Board Reserved Matters + Company Strategy	• MOI • Board reserves matters (part of DoA) • MDS Presentation as part of submissions under Item 3.1 above
• Shareholder's Compact (2013/ 2014/ 2015)	• Shareholder Compact folder
• Corporate Plan, Annual Budget and Borrowing Strategy and/or Funding Plan of the Company as approved by the BOD in relation to the 1064 Transaction [Note: at least for period 2012- 2013, 2013- 2014, 2014 - 2016.]	• Check Corporate Plan folder
• Enterprise Risk Management Framework; and	• Check policy folder for a copy approved in 2012
• Any approvals by the Board and the Minister of Finance for the delegation of the power to borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or	• DoA (Treasury delegation)

① SRI to be provided by GCS ② TFR ③ Provided On USB
 ④ Not on Werksmans' USB ⑤ To be confirmed by GCS

may bind the Company to any future financial commitment in terms of section 66 of the PFMA, in relation to the 1064 Transaction.	
4.8 Minutes (not an excerpt of a minute) of the BADC special meeting held on 29 July 2013.	<ul style="list-style-type: none"> To be provided ones we have access to Carlton Centre
4.9 We note that SCS and TFR only have a draft minute of the meeting of the Locomotive Steering Committee (LSC) held on 19 August 2013. May we have the approved version of the minute as well as the following: <ul style="list-style-type: none"> MDS funding model referred to in paragraph 10 Report referred to in paragraph 13 Official DPE approval referred to in paragraph 18 + response referred to in 21 	<ul style="list-style-type: none"> There was only one meeting we are aware of in 2013. There was a meeting on 19 August 2015 (see minutes attached under LSC folder) TE and TFR Company Secretariat did not have any meetings on the date Funding model and some correspondence we have at our disposal are part of the content provided in USB
4.10 Minutes of the following BADC meetings:	
4.10.1 Meeting held on 20 August 2013;	<ul style="list-style-type: none"> Will be provided ones we have access to Carlton Centre
4.10.2 Meeting held on 27 September 2013;	
4.10.3 Meeting held on 21 October 2013	
General <ul style="list-style-type: none"> 4.6a Risk Assessment Report _ Risk Assessment and Mitigations for the 1064 Locomotives Transaction 6 November 2014 5.6.1 PWC assessment of TE and OEM readiness 7.5 Loco - Update to BADC pages v2 - Transaction advisory team 6.2.3 Scope of TE in 1064 locomotive Transaction Loco 1064 Invest Comm Presentation Jan 2012 R301_Business case 1064 1064 ETC approval by Transnet Board 4 June 2014 Letter to Minister Brown - 1064 Locomotives Detailing OEM breakdown Warrant R301 - 1064 Locomotives part 5 (Page 38-75 of the Business Case dated 25 April 2014) 	DoA <ul style="list-style-type: none"> DoA Framework approved on 25 Nov 2015 Delegation of Authority Framework effective 1 September 2012 Delegation of Authority Framework approved 28 August 2014 3.3 Delegation of Authority Framework approved 28 August 2014 Policies <ul style="list-style-type: none"> 8.1.1 Independent Review of Capital Costs Policy (2) Item 5.3 WACC Policy CAPITAL POLICIES PLUS ANNEXURES - 31 MARCH 2010 ERM Strategy and Framework 2012-2014 Transnet Financial Risk Management Framework - 29 May 2013 Items Not on Werksmans' USB (to be provided today)

① Still to be provided by GCS ② TFR ③ Provided On USB
④ Not on Worksmans' USB To be confirmed by GCS

<ul style="list-style-type: none"> • Warrant R301 - 1064 Locomotives part 4 (Page 1- 37 of the Business Case dated 25 April 2014) • Warrant R301 - 1064 Locomotives part 3.pdf [Letter from Brian to the Board, requesting approval to negotiate and Award - Deisel... dated 17 January 2014, Evaluation Methodology, TIA Recommendation, definitions; Memo to Minister Gigaba from Mkwanazi dated 30Apr2013, Letter to Gordhan from Mkwanazi; memo from Singh to Molefe signed April 2013; Resolution from BOD Special Meeting 25 Apr 2013] • Warrant R301 - 1064 locomotives part 2] Memo from Molefe to BOD dated 17 Jan 2014 Request for approval to negotiate and award for Electric; 1064 Locomotives HVT & FRM Evaluation Report; Evaluation Methodology; TIA Recommendation and Definitions] • Warrant R301 - 1064 Locomotives part 1.pdf [Warrant R301 ETC Increase; Letter to Mkwanazi, Transnet PFMA Application from Gigaba dated 2013/08/03; Excerpt-Resolution BOD 26 May 2014 ETC Increase; BADC Resolution 26 May 2014; Excerpt BADC Minutes 25 April 2013 PPPFA; GEC/GLT 22 April 2013 resolution; Excerpt TFR Investment Committee 09 March 2012; Email from Priscilla Naidoo to Pragasen Pillay and other; Minutes Excerpt of Capital Investment Committee 18 Apr 2013; Memo from Molefe to the Board signed In May 2014] • Warrant R301 - 1064 Locomotives part 5.pdf [Page 77-117 Business Case] • 5.1 Locomotives increase in ETC (ADC 26 May 2014) - Molefe - BADC.pdf • Memo - Acceptance of Final Business Case _ 1064 Locos Business Case.pdf • Letter from Department of Public Enterprises _ Mokhele to Molefe.pdf • Response to queries raised - Brian - Anoj - Mkwanazi • P Gordhan - PFMA Application.pdf • Approval to send letter to minister • Srministry13080615340 - 13 June 2013Section 54 Application Modise to Gigaba.pdf 	<ul style="list-style-type: none"> • 201718FY Signed Shareholders Compact.pdf • 2139_001 _ Memo Approval of Market Demand Strategy _ Gigaba.pdf • 9a Resolutions Register - 23 Apr 2013 - 1064.pdf • 9.2j Annexure I BOD 28 May 2014.pdf • 6.16 Locomotives Increase Approved May 2014.PDF • 6.3b Capex Report dated May 2013.pdf • 6.3a Memo Capex Report 18 Jun 2013.pdf • 5.3b Annexure A1_Signed off Supply Chain Policy.pdf • 5.3a Supply chain policy.pdf • 5.2j APPENDIX G - Validity of BBBEE Certificates_V2_final 2013BADC 20 Aug 2013.pdf • 5.2i APPENDIX F - Appointment of Consultants_V2_final_2013 BADC 20 Aug 2013.pdf • 5.2h APPENDIX E - Principles and Processes for Condonaions BADC 20 Aug 2013.pdf • 5.2g APPENDIX D BADC 20 Aug 2013.pdf • 5.2f APPENDIX C - Incoferms_V2_final 2013 BADC 20 Aug 2013.pdf • 5.2e APPENDIX B - Roles and Responsibilities_V2_final 2013 BADC 20 Aug 2013.pdf • 5.2c Annexure B_PPM Revision_V2_2013_final untracked.pdf • 5.2b Annexure A Summary of main changes to the PPM_07Aug2013_v2.pdf • 5.2a Revised PPM incorporating CPPPM memo.pdf • 5.2a Revised PPM incorporating CPPPM memo dated 7 August 2013 _20 August 2013.pdf • 5.2a Revised PPM incorporating CPPPM memo 7 August 2013 • McKinsey Incorporated Agreement 15 January 2014.pdf • Approved Transnet PPM_V1_Aug2012_effective 1Oct2012.pdf • Approved PPM_v2_October 2013.pdf • Signed Shareholder Compact 2012-13.pdf • Signed 2015-16 Shareholder's Compact.pdf • Signed 2014-15 Shareholder Compact.pdf
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☐ Still to be provided by GCS ☐ TFR ☐ Provided On USB
☐ Not on Werksmans' USB ☐ To be confirmed by GCS

<ul style="list-style-type: none"> • Status with regard to 1064 Locomotive tender _ Singh to BADG.pdf • 9.4 - Annexure A - Request Intervention with regard to exemption form PPPFMA.pdf • 9.4 Memo Current status wrt 1064 Locos Tender _ to Board May 2013.pdf • Item 4.4 (a) Memo to loco Business Case _ Brian to Board -requisition for the procurement of 1064 locomotives.pdf • 6.1.5a Borrowing Plan (signed memo).pdf • Memorandum of Incorporation.pdf • Item 08.15b 1064 Locomotives presentation (Annexure A).pdf • Letter to the Minister on the MOI 29.04.13.pdf • Shareholder's Compact 2013-14 signed.pdf • Signed Shareholders Compact for 2014/15 FY.pdf • Board Reserved Matters.pdf • Mol old.pdf • 5.2a Revised PPM incorporating CPPPM memo.pdf • 6.4a Memo Status update on the PPM and CPPPM.pdf • 3 1064 Acceleration Risk Assessment - Feedback on the Accelerated Loco Delivery and Associated November 2014.pdf 	<ul style="list-style-type: none"> • Signed 2011_12 Shareholders Compact.pdf • Shareholder Compact 2013-14 Final.pdf • MDS Final • Item 6.4b Annexure A PPM at a glance.pdf • HVT training 2017_Presentation V2.pptx • HVT training 2017_Presentation V2.pdf • Funding plan.pdf • FRM_BOARD_APPROVED 06FEB17.pdf.pdf • Financial Plan.pdf • Consolidated Audit Planning Memorandum _HVT_ 2016_17 (002).pdf • Bus case part 3.pdf • Bus case part 2_25 Apr 2013 Final Business Case.pdf • Bus case part 1.pdf • Approved Minutes 29 April 2015.pdf • Approved minutes 23 Feb 2015. • 20120430 - Procurement of 1064 locomotives for the General Freight Business - FINAL DPE.pdf • Anti-Fraud and Anti-Corruption Policy • 5.6d Final Contract Management Procedure Manual 27 Sep 2013 • 5.2a Mitigation of MDS volumes at risk 27 Sept 2013.pdf • 5.1a Procure 2896 wagons for TFR and GFB 27 Sept 2013 .pdf • Transnet Board Self-Assessment Report 2012.pdf • Annexure A - 7 August 2013 letter.pdf • 120806 Main DPE_PFMA Rolling Stock Acquisition 17 Aug 2012.pdf • 6.2 Transnet Board Self-Assessment 22 May 2013.pdf • 6.2 TN BOD Evaluation report updated 20 May 2014 PB.PC • 6.2.95 Locomotives BADG 2013 - memos dated 7 and 8 Aug 2013 and Annex A.pdf
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④ Still to be provided by GCS	⑤ TFR	⑥ Provided On USB
⑦ Not on Workmans' USB	⑧ To be confirmed by GCS	

1064 Locomotive Acquisition Transaction: Documents Still Required

Document Description	Document Date	To be received from	Received / Not received
Documents referred to in Correspondence			
Transnet Letter to Minister of Public Enterprises (MPE) re exemption from PPPFA	19 March 2013	Group	<ul style="list-style-type: none"> Check Warrant R301 1064 Locomotive Part1 (highlighted in General documents above)
Annexures A to C to Transnet's letter to the MPE re application for section 54 approval [Note: Please confirm if these are the annexures attached to the electronic business case received (21 July 2013)] - <ul style="list-style-type: none"> Annexure A – BOD Resolution Annexure B – Executive Summary Annexure C – Business Case [Note: SCS/TFR to check for a signed version of the business case] 	30 April 2013	Group	<ul style="list-style-type: none"> BOD 2013 folder TFR to provide signed business case
Responses to Transnet's request for BAFOs dated 4 January 2014		TFR / SCS	
Excerpts / Other Minutes (Kindly provide full, not excerpts and preferably signed versions plus all accompanying submission information or Board Packs)			
BADC meeting held at 9h00, Carlton Centre, Board Room (BR) 4703	25 April 2013	Group	<ul style="list-style-type: none"> Submission under Item 3.1 (BOD, BADC folders) Minutes will be provided once we have access to Carlton Centre
Special meeting of BOD at 14h20, Carlton Centre, Board Room (BR) 4623 [note: please include those of Special meeting of BOD at 14h00, Carlton Centre, Board Room (BR) 4623 – any difference? if so why?] - we would like <ul style="list-style-type: none"> the submission said to be contained in the pack – Paragraph 4.4 	25 April 2013	Group	<ul style="list-style-type: none"> BOD 2013 folder on USB Contract Management policy (not Workmans USB) FPM Check Corporate plan folder

6	Still to be provided by GCS	7	TFR	8	Provided On USB
9	Not on Werksmans' USB				To be confirmed by GCS

<ul style="list-style-type: none"> • name + appointment + mandate of the Independent expert 4.4.4 • Corporate Plans referred to in the resolution after paragraph 4.10 			
BADC meeting held at 9h00, Carlton Centre, BR 4703 <ul style="list-style-type: none"> • BOD rescission of its resolution to request PPPFA exemption from NT • Report capital spend • Cost analysis at (not on the electronic pack, we will check once we have access to Carlton centre) 	27 May 2013	Group	<ul style="list-style-type: none"> • BADC and BOD folders
(Excerpt) BOD meeting held at 9h00, TE, Stimela Board Room (Gilver Park, PTA) <ul style="list-style-type: none"> • The approved Financial Risk Management Framework • Documents related to in the Delegation of Authority Framework, attached as Annexure B - MCI + Board Reserved Matters + Company Strategy - Shareholder's Compact - Corporate Plan, Annual Budget and Borrowing Strategy and/or Funding Plan of the Company as approved by the BOD in relation to the 1064 Transaction [Note: at least for period 2012 to 2014] - Enterprise Risk Management Framework; and - Any approvals by the Board and the Minister of Finance for the delegation of the power to borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind the Company to any future financial commitment in terms of section 66 of the PFMA - [Note: SCS/TFR to assist with locating the documents per the first 4 bullet points immediately above] 	29 May 2013	Group	<ul style="list-style-type: none"> • Refer to 4.7 above
(Excerpt) BADC special meeting held at 9h19, Carlton Centre, BR 4703	29 July 2013	Group	<ul style="list-style-type: none"> • Minutes will be provided once we have access Carlton Centre
Meeting of the Locomotive Steering Committee (LSC) [Note: Confirmed that SCS/TFR only has a draft of this minute] <ul style="list-style-type: none"> • May we have the official version of this • MDS funding model referred to in paragraph 10 • Report referred to in paragraph 13 • Official DPE approval referred to in paragraph 18 + response referred to in 21 	19 August 2013	Group	<ul style="list-style-type: none"> • Refer to 4.9 above

① Still to be provided by GCS	② TFR	③ Provided on USB
④ Not on <u>Worksmans</u> USB	To be confirmed by GCS	

(Excerpt) BADC meeting held at 9h09, Carlton Centre, BR 4703	20 August 2013	Group	<ul style="list-style-type: none"> Copies of PPM (Nokuthula's USB)
<ul style="list-style-type: none"> Revised PPM incorporating CPPPM 			
(Excerpt) BADC meeting held at 9h17, Carlton Centre, BR 4902	27 September 2013	Group	<ul style="list-style-type: none"> Will check the minutes to confirm details Minutes will be provided once we have access to Carlton Centre
<ul style="list-style-type: none"> Appointment of service provider referred to in the second submission 			
(Excerpt) BADC meeting held at 9h17, Carlton Centre, BR 4902	21 October 2013	Group	<ul style="list-style-type: none"> Minutes will be provided once we have access to Carlton Centre
Documents referred to in memoranda			
Memo from Anoj Singh (AS) to Brain Molele (BM) re acceptance of Final Business Case <ul style="list-style-type: none"> Special BADC meeting of 23 April 2013 – kindly provide minutes + submissions Interactive session arranged with Shareholder representatives – any minute correspondence in that regard (Request sent to TFR) Evidence of consensus and acceptance to be reached between TFR CE, GCFO and GCE [Note: we yet to receive a signed version of the Business case – may we have it] 	29 April 2013	Group – Yusuf Mahommed	<ul style="list-style-type: none"> BADC 2013 Folder – submissions Minutes will be provided once we have access to Carlton Centre
Memo from BM re appointment of members of the CFET [Note: TFR/SCS to please provide appointment letters and mandate of members of the CFET] <ul style="list-style-type: none"> Strategic Procurement Plan [TFR (SCS) to check and advise] CFET Minutes [TFR (SCS) to check and advise] 	6 May 2013	Group / TFR (SCS)	<ul style="list-style-type: none"> Refer to 4.2 above
Memo from BM, AS, Garry Pila (GP) and Peter Volmink (PV) to the BADC resubmission of the PPM for approval: <ul style="list-style-type: none"> Annexures A and B referred to in paragraph 7 of this memo 	7 August 2013	Group	<ul style="list-style-type: none"> Supply chain policy PPM
Memo from SG to Danie Smit re appointment to CFET <ul style="list-style-type: none"> Strategic Procurement Plan referred to in the introductory paragraph 	4 September 2013	TFR (SCS)	<ul style="list-style-type: none"> Received from TFR (SCS) 21 2017
Memo from Siyabonga Gama (SG) to BM re status update step 1 and 2 <ul style="list-style-type: none"> TIA report referred to under the signature of Lucky Mabokela (see last page of memo) [TFR (SCS) to check and advise] 	26 July 2013	Group / TIA	<ul style="list-style-type: none"> There is no TIA report for the transaction as the original total cost was less than R350 000 (consultants' fees)

Still to be provided by GCS TFR Provided On US:

Not on Workmans' USB **To be confirmed by GCS**

Other Documents Required

Other Documents Required			
In relation to the 1064 Transaction in general –	<ul style="list-style-type: none"> • Bid document (Note: TFRSCS has provided all RFP's as well as the financial submissions by the OEM's) • Tender Register • Specifications - TFR (Technical) – L. Frikke Harris, SCS to facilitate • Security of tender received TFR [Note: Security received for advance payments, Guarantee also received for CNR Relocation (only)] • Proof of transfer of the money – TFR – Moola / Mabunda [Note: Worksmans to request from these] • A list of names of the board members that served in Transnet during the tender for the acquisition, pre-application and post awarding the tender • Any Loan/Funding agreements that may have been concluded by Transnet/TFR in relation to the transaction – TFR 	Group / TFR	<ul style="list-style-type: none"> • TFR confirmed that they provide information on Friday the 8 Sep! 2017.
Correspondence stated on page 2 of the notice from Bombardier with respect to Transnet's charge TE- facility location from Koedoespoort to Durban		(April 2015)	TFR
Per business case version 0 (date compiled: 5 March 2012)	<ul style="list-style-type: none"> • We require the prices of the 95 Electric and 43 Diesel locomotives (part of 1202 locomotives) that were approved and had already been approved and were either on order tender (see paragraph 4.3 'Proposed Resolution') 	9 March 2012 (date of submission)	TFR

ANNEXURE B

From: Nkululeko Sibiya Transnet Freight Rail JHB [mailto:Nkululeko.Sibiya@transnet.net]
Sent: 11 September 2017 12:11 PM
To: Thandi Tshabalala <ttshabalala@werksmans.com>; Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>
Cc: Harold Jacobs <HJacobs@werksmans.com>; Ndiphiwe Silinga Transnet Corporate JHB <Ndiphiwe.Silinga@transnet.net>; Orla Murphy <omurphy@werksmans.com>
Subject: RE: 1064 Locomotive Acquisition Transaction [IWOV-Litigation.FID385171]

Good Morning Thandi/Orla

I hope this email finds you well.

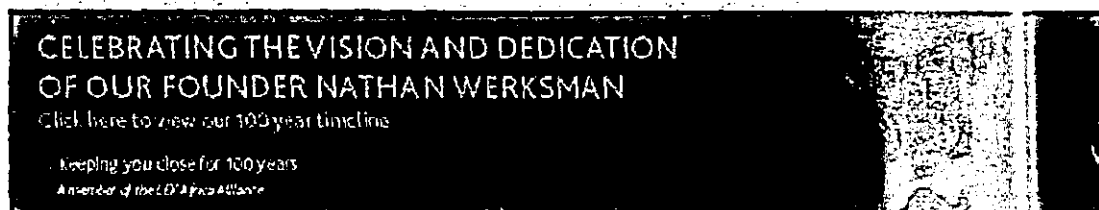
Please find herewith attached documents which I handed over to your driver on Friday, 08 September 2017.

I am aware that some of the information is still outstanding and I will try my best to secure the balance within the week. Kindly refer to our comments (in blue) below regarding latest progress.

Kind regards

Nkululeko

From: Thandi Tshabalala [mailto:ttshabalala@werksmans.com]
Sent: 01 September 2017 03:17 PM
To: Lindiwe Mdletshe Transnet Freight Rail JHB <Lindiwe.Mdletshe@transnet.net>; Nkululeko Sibiya Transnet Freight Rail JHB <Nkululeko.Sibiya@transnet.net>
Cc: Harold Jacobs <HJacobs@werksmans.com>; Ndiphiwe Silinga Transnet Corporate JHB <Ndiphiwe.Silinga@transnet.net>; Orla Murphy <omurphy@werksmans.com>
Subject: RE: 1064 Locomotive Acquisition Transaction [IWOV-Litigation.FID385171]



This email and its attachments are private, confidential, may be subject to legal professional privilege and are only for the use of the intended recipient.

Dear Lindiwe and Nkululeko

Thank you for meeting with Orla and myself yesterday to discuss provision of the documents referred to in the attachments to our trailing email. As discussed, please see below and attached (in red) confirmation of what was discussed/agreed in respect of each document.

Documents per PWC list, 3 August 2017-

- 1 The final submissions made by the four (4) OEM's after negotiations stage - you informed us that all submissions from OEM's will have been made prior to

finalisation of negotiations i.e. before or during negotiations. Kindly provide us with all submissions by the 4 OEM's before or during negotiations (along with the requests from TFR/Transnet requesting such submissions, if any) - We note it was discussed that these mostly comprise clarifications, of which the BAFO clarifications were provided... However, the responses to the BAFO clarifications by the OEM's and clarifications/other info and responses after the 'BAFO stage' have yet to be provided (these are to do with the negotiation stage - we understand that whatever clarification/info required from the OEM's at this stage, TFR would have required responses in writing);

TFR submitted 2 files for both Electric and Diesel clarifications and responses during the negotiations stage between February and March 2014. These have all the communication between TFR and the OEMs.

- 2 Other relevant information held by Supply Chain Services (throughout the consultations information and/or documentation at Supply Chain Services were referred to) - we discussed that this request may be vague in as far as it is too broad and refers to documents/information previously referred to by others (not SCS), which documents/information are not specified. This makes identifying/locating same virtually impossible, but in locating other requested information SCS will include what documents/information that may have a bearing on the 1064 transaction (even if such may not have been specifically requested);

As previously explained at the meeting, the statement does sound more like TFR has withheld pertinent information which might be useful in this exercise. We believe we have provided all that is required unless Werksmans is specific on documents that must still be submitted.

- 3 Access to all laptops and or hard drives used by the Transnet teams during the evaluation and negotiations processes. This will be for purposes of extracting forensic images of these devices. In order to prepare sufficiently for these images we require the details pertaining to the laptops and/or hard drives. These details include the make and the size of the hard drive of the computer and/or hard drive - first / 8 or 9 laptops had been utilised for the evaluations stage and all but one have been wiped/cleaned and returned to IT. The one that remains with TFR/SCS can be provided, though the passwords to the info stored separately for the various CFE teams will have to be verified first. There is also an external hard-drive that was used as a back-up which can also be provided, but it was noted that the information stored there is not in order due to IT reasons ;

A laptop together with an attachment which contained information that was saved from the +/- 7 laptops which were used for the evaluations. As mentioned above, information on the hard drive is not in order but we will hopefully resolve the IT issues and also hand over to Werksmans.

- 4 Recordings of or notes taken of the negotiations with the different OEM's held at the offices of Webber Wentzel - Minutes were taken and recordings took place, TFR/SCS to confirm the status of availability of these and advise. Was noted that Scott Edmundson and 'Nana' were part of the Webber Wentzel team, and David Honer of the Nigiza Honer team;

I did communicate with Scott Edmundson from Webber Wentzel and he confirmed that they did not record any minutes from the negotiations. However, I have shared the recordings of the meetings held at Webber Wentzel. Unfortunately, we had not requested a transcription of these recordings. I hope the recordings provided will be, to a large extent, useful.

- 5 Working papers of the external audit teams which formed part of the evaluation teams - TFR/SCS did not have access/copies of reports by consultants or other engagements), that which SCS does have it will however provide, (i.e. Regiments, which came in through group to assist in the negotiations, thus during the negotiation they would come with their material then take it with them on leaving... that said, there was however a box that was left (currently marked Regiments, that was left with TFR/SCS - this will be located and provided). It was suggested that perhaps these consultants/independent experts should be approached by a person such Ndiphiwe to obtain all the information that would have been used in relation to the 1064 Transaction. That said, in as far as it may be there TFR/SCS will check and advise/provide;

I shared a box of information from Regiments which I hope will be useful. We do not have any other analysis over and above what we have provided.

- 6 Final evaluation reports which Mr Moola referred to - The prequalification evaluation reports from finance (x2) have been provided. The final evaluation report from finance has also been provided [note: Werksmans files 22 & 23]. TFR will clarify with Laher and Moola in regards to the final version of the CFET (Finance) evaluation report, as what has been submitted to us is only and unsigned reference copy version;

I have communicated with the 2 gentlemen and still awaiting a response and guidance. Matter still open, further update will be provided to Werksmans within the week.

- 7 Board meeting minutes and/or other records where the split of the batch size and the awarding of the tender to more than one (1) OEM per type of locomotive was approved – this must be requested from Group. The BOD meeting itself was held 24 January 2014 – also the minute of BADC recommending this... Perhaps Yousuf Mohamed of the GCFO office could assist. All TFR/SCS has in its possession (which has been provided) is an unsigned resolution of the BOD and memo from Brain Molefe to the BOD (signed 23 May 2014) which pertain to the increase in ETC from R38.6b to R54.5b. Thus minutes (not excerpts) of the BOD where this resolution giving rise to the approval of the increase in ETC, along with all submissions that may have been tabled. The source materials listed in paragraph 107 of Brain Molefe's memo (signed on 23 May 2014), which includes KPMG accounting opinions and Regiments Advisory Services (underlying documents of such services), TFR/SCS also does not have but will check and advise. Perhaps meeting is to be set up through Ndiphiwe with finance to determine what documents/information are relevant to the increase in ETC and where same may be obtained/sourced;

TFR only had information from Regiments and not the other audit support structures like KPMG etc. TFR will await communication from Werksmans/ Group (Ndiphiwe) so that we make sure that all relevant stakeholders/team members are present at the meeting that must be scheduled.

- 8 The report or deliverable submitted by Regiments, Potter and other advisors throughout the process – TFR have provided a design and development report by David Potter (as obtained from Finance). Generally, TFR/SCS does not have reports and other information submitted/by consultants as those, in relation to 1064, were sourced/ appointed by Group. You have undertaken to write to finance to find out if it can be ascertained who the external advisors/consultants were appointed by/reported to, so the requisite information/documents may be located;

I have communicated with Finance and awaiting a response. Feedback will be provided to Werksmans within the week.

- 9 Accounting information of the entire 1064 transaction up to date, to be discussed with Mr Moola – TFR/SCS has provided the finance accounting info at evaluation (x2

hardcopy files: please note paragraph 6 above re reference copy) and negotiation stage (electronic version on flash-disc). Accounting info pre-evaluation and post-negotiation TFR/SCS does not have. Finance and those involved at business case stage (collard/Bouwer and the like) are to assist with this. In locating other requested information TFR will include what documents/information that may have a bearing on the 1064 transaction. It may be useful to have a session with finance determine what other finance documents may still be outstanding, as TFR/SCS has given everything in its possession believed to be accounting information;

We will await communication from Werksmans to advise on the suggested date to have the meeting.

- 10 Memorandum and/or supporting documentation pertaining to the relocation of the two (2) OEM's from Koedoespoort to Durban - The pack of documents given through Ndiphiwe, along with the CD of the negotiation of same is all that TFR/SCS has. Any other document/information that may be missing must be obtained from the office of the GCFO. This negotiation portion of the Transaction was led by that office;

As mentioned, information was sent to Werksmans via the office of Group Legal (Ndiphiwe). A letter from the GCE requesting BTSA to relocate to Durban was also shared with Werksmans on Friday.

- 11 McKinsey model used in the preparation of the business case and other relevant documentation - this is a Group item. However, Gene Bailing (TFR) is responsible for business cases and will provide TFR/SCS with the contact details of Francis Callard and Johan Bouwer. SCS will facilitate engagements to be conducted between Werksmans, Francis Callard and Johan Bouwer who are the persons who can speak to the content of the business case. JD (TFR) is also another person who was involved in the business case and may be of assistance;

Following a meeting held with Werksmans, TFR reconvened with Gene to understand whether there was any signed version of the Business Case. He has indicated that he does not have a signed version and he also mentioned that some of the business cases are never signed but the minutes and resolutions of the Board Meetings that carry such discussions serve as evidence of any approvals made for specific projects. Contact details for Francis will be shared with Werksmans on one of the responses requesting for this information below. Werksmans to

note that Johan has unfortunately left the company and therefore cannot be contacted unless otherwise requested by Werksmans/Transnet Senior Management.

- 12 Minutes of the TFRIC meetings (to be received from Ms Galeni) - we are to follow up with Ms Galeni;

Werksmans will follow up with Ms. Galeni (as highlighted above).

- 13 Minutes of the SteerCo meetings (to be received from Ms Galeni) - we are to follow up with Ms Galeni, this is a Group item. TFR/SCS confirmed that they provided us with a minute of this Committee attaching a draft mandate, which is the only version in their possession;

Werksmans will follow up with Ms. Galeni (as highlighted above).

- 14 Document prepared by JD Pillay and team setting out the risks associated with the acceleration of the delivery schedule - SCS to provide;

Document was shared with Werksmans on Friday.

- 15 Letter and correspondence between Transnet Group and the OEM's pertaining to the Relocation of the two (2) OEM's from Koedoespoort to Durban - this is a Group item, the office of G Pita is particular;

Group action item.

- 16 Letters and correspondence by Transnet Group to TFR pertaining to the Relocation of the two (2) OEM's from Koedoespoort to Durban - see paragraph 10 above;

A letter from Transnet to BT requesting them to relocate to Durban was shared with Werksmans. CNR does not make mention of this letter in any of their communication. Group to advise if a similar letter was issued to CNR.

- 17 Information pertaining to the acquisition of locomotives prior to the 1064 contract used in the preparation and estimation of the business case - to be held over on the basis of the responses to paragraphs 7 and 11, in particular the anticipated engagements with Francis Callard and Johan Bouwer;

Francis's contact details: 083 283 1593

- 18 Communication between Transnet and the Shareholder Minister relating to the R15,9 billion Increase in the ETC – Group item, TFR/SCS to check and advise [Note: Werksmans has today written to the company secretary];

Group action item.

Documents per Werksmans list 3 August 2017 –

- 19 A Regiments report and documentation including all technical calculations and information relating to the calculations, working calculations on the reasonability of the escalations and cost evaluations as at February 2014 – Group item – G Pita. TFR/SCS to check on what they have;

Group action item. What we have was shared with Werksmans on Friday.

- 20 All transcribed recordings of the meetings held with the four bidders during the negotiation stage – Minutes were taken and recordings took place, TFR to confirm the status of availability of these and advise – See response at paragraph 4 above;

All TFR recordings were shared with Werksmans on Friday.

- 21 The attendance register of all persons involved in the negotiations– TFR/SCS to provide;

Attendance registers still to be provided. Registers to be shared within the week.

- 22 The details of the lead partner at Webber Wentzel who acted on instruction of Transnet through the negotiation stage – TFR/SCS to provide, see above;

Scott Edmundson – 011 330 6233 or 071 863 6737

Nana Dlamini – 083 347 7007 (Note, Nana has left Webber Wentzel)

- 23 The final and duly signed report by CFET (Finance) team – TFR/SCS to check and advise as per above;

TFR SCS following up with TFR Finance. Feedback to be provided to Werksmans within the week.

- 24 The High Value Tender ("HVT") working papers of TIA - TFR/SCS has provided on flash-disc collected on 27 July 2017, TFR/SCS still to provide the reports from TIA (for all steps of evaluation steps and final report);

TFR to provide information within the week.

- 25 HVT working papers of SKX - TFR/SCS has provided on flash-disc collected on 27 July 2017, TFR/SCS still to provide the report from TIA;

TFR mentioned at the meeting that it had no information relating to audits conducted by SKX. We will try to locate those that were involved with these auditing teams.

- 26 HVT working papers of Ernst & Young - TFR/SCS has provided on flash-disc collected on 27 July 2017, SCS still to provide the report from TIA;

Similar to the response above, TFR does not have information relating to audits conducted by Ernest & Young. We will try to locate those that were involved with these auditing teams.

- 27 The expert opinion prepared by David Potter regard the Business Case (not the 2014 Report) - refer to response at paragraph 17; and

TFR following up with TFR Finance to see if there is any additional information by David Potter that was not shared with Werksmans.

- 28 The agreements entered into between Transnet and the OEMs namely: CSR, Bombardier and GESAT - provided.

Provided.

Documents per table ("*documents still required*") - The attached table has been updated with comments/requests (in red).

Documents referred to in memoranda			
Memo from Anoj Singh (AS) to Brain Molefe (BM) re acceptance of Final Business Case <ul style="list-style-type: none"> • Special BADC meeting of 23 April 2013 – kindly provide minutes + submissions • Interactive session arranged with Shareholder representatives – any minute correspondence in that regard (Request sent to TFR) 	29 April 2013	Group – Yusuf Mahomm ed	<ul style="list-style-type: none"> • BADC 2013 Folder – submissions • Minutes will be provided once we have access to Carlton Centre
Memo from BM re appointment of members of the CFET [Note: TFR/SCS to please provide appointment letters and mandate of members of the CFET] <ul style="list-style-type: none"> • Strategic Procurement Plan [TFR (SCS) to check and 	6 May 2013	Group / TFR (SCS)	<ul style="list-style-type: none"> • Refer to 4.2 above
Memo from BM, AS, Garry Pita (GP) and Peter Volmink (PV) to the BADC resubmission of the PPM for approval: <ul style="list-style-type: none"> • Annexures A and B referred to in paragraph 7 of this 	7 August 2013	Group	<ul style="list-style-type: none"> • Supply chain policy • PPM
Memo from SG to Danie Smit re appointment to CFET <ul style="list-style-type: none"> • Strategic Procurement Plan referred to in the introductory paragraph 	4 September	TFR (SCS)	<ul style="list-style-type: none"> • Received from TFR (SCS) 21 July 2017
Memo from Siyabonga Gama (SG) to BM re status update step 1 and 2 <ul style="list-style-type: none"> • TIA report referred to under the signature of Lucky Mabokela (see last page of memo) [TFR (SCS) to 	26 July 2013	Group / TIA	<ul style="list-style-type: none"> • There was no TIA report for the transaction as the original total

**please note the table above comprises a truncated version of the one sent to TFR SCS. Thandi Tshabalala of Werksmans and Nkululeko Sibiyi of TFR discussed on the morning of 18 September 2017 that TFR SCS will peruse the entire table once more and provide any further documents that may be outstanding and in their possession.*

Appendix 7

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Schedule containing persons interviewed during the investigationIndividuals from Transnet Group:

- 1 Siyabonga Gama (Transnet, current Group Chief Executive)
- 2 Brian Molefe (Transnet- Group Chief Executive 2011 to 2015)
- 3 Garry Pita (Transnet, current Group Chief Financial Officer)
- 4 Yasmin Forbes (Non-executive Board Member)
- 5 Nokuthula Khumalo (Transnet current Company Secretariat)
- 6 Kgagelo Makhura (Snr Specialist: Records Management, Policy Development and Internal Control)
- 7 Edward Thomas (Transnet (Group Finance))
- 8 Yusuf Mohammed (Transnet (Group Finance))
- 9 Mohammed Mahomed (Transnet (Group Finance, General Manager))

Individuals from Transnet Freight Rail ("TFR")

- 10 Thammi Jiyane (Currently Transnet's Chief Officer Advanced Manufacturing, previously Chief Procurement Officer at TFR)
- 11 Nomfuyo Galeni (TFR)
- 12 Rita Rope (TFR)
- 13 Pragasen Pillay (TFR)
- 14 Lindiwe Malletshe (TFR)
- 15 Nkululeko Sibiyi (TFR)

- 16 Yousuf Laher (TFR)
- 17 Mohammed Moola (TFR)
- 18 Thabo Seapi (TFR)
- 19 Francis Callard (Ex TFR employee)
- 20 Danie Smit (TFR)

21 Lazarus Mabunda (TFR)

Transnet Engineering ("TE"):

- 22 Frikkie Harris (TE)
- 23 Chris Uys (TE)

Transnet Internal Audit ("TIA"):

- 24 Mmathabo Sukati (Transnet Chief Audit Executive)
- 25 Emma Molotwane of Sekela Xabiso ("SKX") (TIA HVTP – evaluation and negotiation)
- 26 Thato Mahlamvu SKX (TIA – HVTP [Head/Manager])
- 27 Jaco Hoon and Johan De La Rey of KPMG (Transnet Internal Audit – contract management)

28 Dr Andre Botha of PwC

Non-Transnet employees

- 29 Dr Andrew Shaw (of PWC)
- [
- 30 Anton du Randt (of PWC)

- 31 Jeffery Kron (Norton Rose Fulbright representing employees of Mckinsey)
- 32 Rowlen Von Geriecke (Minority Shareholder In CNR)
- 33 Robbie Gonzalves (Minority Shareholder In CNR)
- 34 Lulamile Xate (Minority Shareholder In CNR)
- 35 Representatives of the South African Reserve Bank
- 36 Representatives of the National Treasury

Who Werksmans did not interview during the investigation

- 1 Anoj Singh (Transnet Group Financial Officer for 2012-2015)
- 2 Salim Essa
- 3 Mafika Mkwanazi (Chairman of Transnet for the period the Transaction was entered into)
- 4 Mathane Makgato (Ex Transnet Group Treasurer 2013- 2015)
- 5 Niven Pillay (Regiments Capital)

Appendix 8



PRIVILEGED AND CONFIDENTIAL

**WERKSMANS' REPORT ON THE PROCUREMENT OF 1064
LOCOMOTIVES FOR TRANSNET FREIGHT RAIL ("TFR") GENERAL
FREIGHT BUSINESS
("PRELIMINARY OBSERVATIONS")**



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SCOPE/MANDATE

- 1 Werksmans Inc. ("Werksmans") has been requested to consider and advise on the 1064 locomotives acquisition ("Transaction") pursuant to a written mandate issued by Transnet SOC Limited's ("Transnet") board of directors ("Board") on or about 3 July 2017, as supplemented by the representations made by the Group Chief Executive ("GCE") on same date, ("Mandate"). Relevant portions of the Mandate for purposes of these preliminary observations will be dealt with in more detail below.
- 2 At the instance and request of the Chairperson and members of the delegated Steering Committee of the Board, Werksmans is expected to produce these preliminary observations by September 2017.
- 3 Within the limitations as will appear further below, Werksmans have in deliberation with the delegated Steering Committee, focused its consideration on the legislative framework applicable read with the relevant Transnet procurement procedures and policies, the constituents of the relevant boards and/or committees and the financial architecture of the Transaction for the relevant period.

DISCLAIMER

- 4 The initial views and observations expressed and contained herein may not be relied upon given the limitations experienced in fulfilling the Mandate including, *inter alia*, that the entire process has been hampered due to a failure on part of all relevant role players to provide active and constructive assistance. In addition, significant information and/or evidence has not been provided, as will appear more fully below.



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- 5 Our observations and views expressed herein are given solely for the purpose of and in connection with the defined Mandate, with reference to issues pertaining to the Transaction, and exclusively for the benefit and information of the persons to whom it is expressly addressed. These preliminary observations may not, without our prior written consent, be used or relied upon for any other purpose whatsoever or (in whole or in part) be transmitted or disclosed to or be used or relied upon by any other person or entity whatsoever ("Third Party") or be quoted or referred to or made public or filed with any Third Party. Accordingly, Werksmans, its affiliates and their respective directors, employees and consultants shall have no liability to any Third Party.
- 6 As agreed in our engagement letter, the aggregate liability of Werksmans, its affiliates and their respective directors, employees and consultants (whether in contract, delict or otherwise) arising from or in connection with the Mandate, including these preliminary observations, is limited to twice the amount charged and received by Werksmans (excluding value-added tax and disbursements) in connection with the Mandate. This paragraph constitutes a stipulation for the benefit of each of Werksmans' affiliates and the individuals referred to in this paragraph, capable of acceptance by any of them at any time.
- 7 For the purposes of preparing these preliminary observations and any future reports and/or opinions and of giving oral advice in terms of the Mandate, we have relied and will rely on information made available to Werksmans by Transnet, Regulatory Authorities as well as other information sources as recorded herein below.
- 8 These preliminary observations are based on our interpretation of the applicable South African laws, relevant Transnet policies/governance framework and administrative and judicial interpretations in force during the period of the Transaction. Werksmans is not obliged to advise on any matter, or any changes in law or fact, which may affect these preliminary observations and which may come to Werksmans' attention after the date of these preliminary observations.



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- 9 These preliminary observations are produced for members of the Board of Transnet only. In the event of any portion thereof being published Werksmans reserves the right to publish the entire document.

OVERVIEW/LIMITATIONS

- 10 It is necessary to give an account of events that have precluded the authors from delivering the report within the timeframe determined in terms of the provisions of the Mandate. We set out below the principal issues that have had a fundamental negative impact on this *status quo*, some of which continue to hamper the progress of producing the report as mandated by the Board.
- 11 The extent of the allegations of corruption and public outcry involving Transnet and its personnel are well documented. In relation to the applicable legislative framework and Transnet's own procurement policies, as determined from time to time, we have identified in the course of our examination of the information at hand that Transnet has not adhered to either. These apparent deficiencies identified in our *prima facie* views are subject to further interrogation and investigation. In the course of our continued Mandate these considerations and the extent of compliance will be addressed. In the result, we have been unable to complete the investigation.
- 12 The appointment of external consultants to the Transaction, including McKinsey who it is alleged subcontracted part of the work to Regiments, most of whom are now the subject of various investigations, remain under suspicion. Regrettably, despite repeated requests, Transnet has failed to provide complete documentation and credible information. We are at this stage therefore unable to express an opinion on the work performed by these consultants.
- 13 The process of collecting information commenced immediately on issuance of the Mandate and as at presentation of these preliminary observations, a comprehensive chronology of the requisite documentation and information, despite undertakings, remains still to be completed. The perception exists that senior management and the Board are seeking to cover-up corruption.



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- 14 It is therefore in our view reckless to opine on the allegations made against Transnet without a full and complete dossier of information, together with a concomitant opportunity to test the veracity of such information to the extent that such information is forthcoming.
- 15 We note that whilst consideration of the legislative framework will of necessity be required to be traversed in order to fully discharge our obligations in terms of the Mandate, it is not our intention for purposes of these preliminary observations to explore the relevant legislative architecture, which of necessity will include *inter alia* the Public Finance Management Act, 1 of 1999, ("PFMA"), the Companies Act, 71 of 2008, ("Companies Act") and the Prevention and Combating of Corrupt Activities Act, 12 of 2004 ("PACCA"). The internal policies that existed at Transnet at the relevant time, of which there are many, is a subject matter which will be addressed in due course.
- 16 Werksmans was appointed by the Board to investigate and provide an opinion on the allegations into irregularities in the procurement and award, *inter alia*, of the 1064 Locomotive Acquisition Transaction. The appointment was essentially the product of a dossier of documents/ pro-forma charge sheet received in June 2017 from the GCE and released by the Economic Freedom Fighters ("EFF") into the public domain ("EFF pro-forma charge sheet"), as a precursor to the EFF's advise that it intended to lay charges against, *inter alia*, the Board in relation to the Transaction. The Mandate was also extended to include forensic auditors to examine the financial architecture of the Transaction. Transnet approved the appointment of PriceWaterhouseCoopers ("PWC") who were subcontracted to Werksmans.
- 17 We pause to mention that save for the EFF pro-forma charge sheet, no documentation of whatsoever nature accompanied the Mandate notwithstanding an extract of its terms as is recorded below:

"The investigation will be for a period of 12 weeks (3 months), at the most, broken down as follows:

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1. *Planning and studying of documents: (2 weeks)*
2. *Analysis of evidence, interviews and consolidation of information: (8 weeks)*
3. *Formulating of conclusions and recommendations and report writing: (2 weeks)*

The final report will be issued at the latest by 30 September 2017."

- 18 Werksmans were advised to make contact with Transnet Freight Rail Supply Chain Services ("TFR SCS") to source all information and supporting evidence that would be required to discharge its obligations in terms of the Mandate. After engaging with TFR SCS at or about the end of June 2017, Werksmans were informed that TFR SCS would provide what they have retained, on specific request from Werksmans, and with the caveat that it is to be borne in mind that certain documents may be housed at Group or elsewhere.
- 19 With the benefit of hindsight and given the ambit of the Transaction, the period over which it spans, the vast amount of information pertaining thereto, the importance of the third party investigations conducted to date, as appears from the issued reports on State Capture, and further having regard to the difficulties experienced in obtaining precise instructions; we record that the timeframe stipulated in the Mandate for provision of the report was never sufficient, reasonable or realistically possible. We note that securing/procuring the assistance demanded by an investigation of this magnitude is still an ongoing process, but note the very recent introduction of a designated executive, Mr Thamsanqa Jiyane, whom we understand has been appointed to facilitate the required assistance to enable a more expedient and efficient process.



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- 20 Werksmans in consultation with the delegated Steering Committee of the Board observed a potential conflict of interest of retaining PWC, given the latter's report on the Transnet Engineering ("TE") scope during 2013/2014. We note PWC had stated that it had satisfied its internal process regarding the risk associated in any perceived conflict of interest. From a public policy perspective and as a result chiefly of the negative perception emanating in the public at large in relation to the Transaction, it was resolved that there is sufficient perception that a perceived conflict of interest could materialise. Thus and given that PWC had first "assisted" in negotiating a price component of the TE scope, it was resolved that it could not be expected to opine on the reasonableness and veracity of any aspect of the Transaction.
- 21 In light of the above, it was resolved to terminate PWC's appointment and to appoint the Professional Group, led by Professor Harvey Wainer, on or about 29 August 2017. We note that on 26 September 2017 we, on behalf of the Professional Group, called on Transnet to provide additional documentation.
- 22 There exists evidence of the fact that in many instances truncated and unsubstantiated documentation produced cannot be relied upon. We have questioned, on several occasions, the veracity of documentation and have yet to receive an adequate response. This aspect is elaborated on further in our observations below.
- 23 We have established on good authority the existence of evidence that has not been produced. On Saturday 30 September 2017 we obtained a re-writable compact disc of documentation which is in excess of 5000 pages, all of which pertains to the Transaction.
- 24 Regrettably we have been unable to carry out the full investigation into the matter as set out and identified in the Mandate.



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25 Given the hesitation and reluctance to facilitate an open and transparent process it is not rational to expect that a mere perusing of a plethora of material would enable one to discern whether the award of business and recommendations *"would not be harmful to Transnet's image"*. Furthermore, it has not been possible, within the limited time available, to determine whether internal processes, given the policy and governance framework in existence at Transnet at the relevant time, were adhered to at all times. This is a feature of the Transaction that needs to be further interrogated and confirmed. Stated differently, it is rather the integrity of the process employed in the Transaction that requires examination. A simple scrutiny and examination of the paperwork to hand is not illustrative of the extent or otherwise of adherence to the applicable policies, governance framework and other legislative provisions.

26 In the course of September 2017 we conducted interviews at the offices of National Treasury. We record that whilst we anticipate cooperation given our limited inquiries, this office has not furnished any of the requisite information. We pause to mention a comment made by the then Minister of Finance as appeared on a news bulletin of the ENCA on 27 September 2017, wherein the following was headlined

"Gordhan asks how many people are marching on Transnet over massive locomotive deal".

26.1 section 54 of the PFMA deals with the information and activities that the accounting authority for a public entity must submit or report to the relevant treasury of the Auditor-General. Before a public entity concludes any ... transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction. The PFMA applies to Transnet as an entity listed in schedule 2.



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- 27 Material witnesses have been identified and are to be engaged regard being had to the examination of the documentation and information currently available. Realistically it is anticipated that both Werksmans and the Professional Group will be in a position to provide a preliminary report by the end of November 2017. Based on that preliminary report, decisions can be made by Transnet and Werksmans as to the future progress of this investigation.

TRUNCATED CHRONOLOGY OF SALIENT EVENTS

- 28 On or about 25 April 2013 the Board of Acquisitions and Disposals Committee ("BADC") made a recommendation to Transnet's then board of directors ("BOD") to approve the final business case, which would accompany Transnet's section 54 PFMA application to be made to the shareholder minister, the Minister of Public Enterprise ("MPE"). The BOD in a Special Meeting held on 25 April 2013 at 14h20 ("Special BOD Meeting") resolved:¹

"6.1 Procurement of 1064 locomotives for the TFR General Freight Business

RESOLVED that the Board approved the following:

- *The business case for the acquisition of the 1064 locomotives for TFR's General Freight Business at an estimated cost of R38.6bn as per the Corporate Plan (excluding potential effects from forex hedging, forex escalation, and other price escalations)."*

¹ Please see the "certified excerpt from the draft minutes of the special meeting of the Transnet Board of Directors No.13/3 at 14:00 in boardroom 4623, 46th floor, Carlton Centre, Johannesburg", counter signed by Group Company Secretary Ayanda Ceba on 26 April 2013.



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APPROVED BOARD COMMITTEES WITH EFFECT FROM 30 AUGUST 2012

Audit Committee	Corporate Governance and Nominations Committee	Board Risk Committee	Remuneration, Social and Ethics Committee	Board Acquisitions and Disposal Committee
Mr IB Skosana (Chairman)	Mr ME Mkwanazi (Chairman)	Ms DLJ Tshepe (Chairman)	Ms Nr Njeke (Chairman)	Mr IM Sharma (Chairman)
Mr MA Fanucchi	Mr NK Choubey	Ms Y Forbes	Mr MA Fanucchi	Ms Y Forbes
Ms NR Njeke	Ms Y Forbes	Mr HD Gazendam	Mr HD Gazendam	Mr ME Mkwanazi
Ms E Tshabalala	Mr IM Sharma	Ms N Moola	Ms N Moola	Ms NR Njeke
	Ms DLJ Tshepe	Mr IB Skosana	Ms E Tshabalala	Ms DLJ Tshepe

RECOMMENDATION POST 13 JANUARY 2013

Audit Committee	Corporate Governance and Nominations Committee	Board Risk Committee	Remuneration, Social and Ethics Committee	Board Acquisitions and Disposal Committee
	Mr ME Mkwanazi (Chairman)	Ms DLJ Tshepe (Chairman)	Ms Nr Njeke (Chairman)	Mr IM Sharma (Chairman)
Mr MA Fanucchi	Mr NK Choubey	Ms Y Forbes	Mr MA Fanucchi	Ms Y Forbes
Ms NR Njeke	Ms Y Forbes	Mr HD Gazendam	Mr HD Gazendam	Mr ME Mkwanazi
Ms E Tshabalala	Mr IM Sharma	Ms N Moola	Ms N Moola	Ms NR Njeke
Ms NP Mnxasana	Ms DLJ Tshepe	Mr IB Skosana	Ms E Tshabalala	Ms DLJ Tshepe
				Ms NP Mnxasana



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RECOMMENDATION

That the Board approves that Ms NP Mnxasana be appointed as a member of the Board Acquisitions and Disposals

RECOMMENDATIONS POST 25 JUNE 2013

Audit Committee	Corporate Governance and Nominations Committee	Board Risk Committee	Remuneration, Social and Ethics Committee	Board Acquisitions and Disposal Committee
Mr IB Skosana (Chairman)	Mr ME Mkwanzani (Chairman)	Ms DLJ Tshepe (Chairman)	Ms Nr Njeke (Chairman)	Mr IM Sharma (Chairman)
Mr MA Fanucchi	Ms Y Forbes	Ms Y Forbes	Mr MA Fanucchi	Ms Y Forbes
Ms NR Njeke	Mr IM Sharma	Mr HD Gazendam	Mr HD Gazendam	Mr ME Mkwanzani
Ms E Tshabalala	Ms DLJ Tshepe	Ms N Moola	Ms N Moola	Ms NP Mnxasana
Ms NP Mnxasana		Mr IB Skosana	Ms E Tshabalala	Ms NR Njeke
				Ms DLJ Tshepe



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RECOMMENDATIONS POST 25 JUNE 2013

Audit Committee	Corporate Governance and Nominations Committee	Board Risk Committee	Remuneration, Social and Ethics Committee	Board Acquisitions and Disposal Committee
Mr IB Skosana (Chairman)	Mr ME Mkwanaenzi (Chairman)	Ms DLJ Tshepe (Chairman)	Ms Nr Njeke (Chairman)	Mr IM Sharma (Chairman)
Mr MA Fanucchi	Ms Y Forbes	Ms Y Forbes	Mr MA Fanucchi	Ms Y Forbes
Ms NR Njeke	Mr IM Sharma	Mr HD Gazendam	Mr HD Gazendam	Mr ME Mkwanaenzi
Ms E Tshabalala	Ms DLJ Tshepe	Ms N Moola	Ms N Moola	Ms NP Mnxasana
Ms NP Mnxasana	Mr HD Gazendam	Mr IB Skosana	Ms E Tshabalala	Ms DLJ Tshepe
	Ms NR Njeke			

RECOMMENDATION

The Board notes the retirement of Mr NK Choubey at the last Annual General Meeting. The Board RESOLVED that it approves the following:

- That Ms NR Njeke is retired as a member of the Board Acquisitions and Disposals Committee.
- That Mr HD Gazendam is appointed as a member of the Corporate Governance and Nominations Committee.
- That Ms NR Njeke is appointed as a member of the Corporate Governance and Nominations Committee.

29 On 3 August 2013 the MPE penned a letter to the Chairman of the BOD ("Chairman") wherein it was recorded:

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"...I see Transnet Engineering (TE) playing a critical role in developing strategic and industrial capabilities relevant to the rail supply chain. In so doing, TE is expected to systematically support the development of a broader rail industrial cluster involving the private sector and position South Africa as a rail equipment manufacturing hub for Africa. In order to achieve this, the current locomotive procurement programme should be used to ensure that a world class enterprise and rail cluster is built.

Approval is hereby granted to Transnet for the procurement of the 1064 locomotives, subject to the following conditions being met:

- 1. A clear statement by Transnet with regard to the TE's vision in the locomotive supply chain and what capabilities will need to be developed to make this vision a reality.*
- 2. Transnet to provide TE's seven year locomotive supply chain strategy illustrating what is being imported, what TE produces, what is being outsourced to the private sector and the broad conditions associated with outsourcing that will result in the building of a competitive national industry. Such conditions may include industry competitiveness benchmarking, investment in plant and skills and the requirement that industry masters quality and learn manufacturing disciplines in exchange for long term contracts.*
- 3. Transnet to provide a clear plan to the strategic fit of this locomotive procurement to the broader road to rail migration to objective.(sic)*
- 4. Transnet provides the Department with a view of the localisation strategy for the following strategic components:*

4.1 Traction motor

4.2 Traction no -

- Diesel engine,*
- Bogies;*
- Electrical system;*
- Management system;*
- Control system*

Transnet's continued commitment to the economic development of our country is recognised and appreciated; and the Department is committed to providing the necessary support to ensure that the MDS' objectives are achieved."

- 30 On or about 30 October 2013 the Minister of Finance addressed a letter to the Chairperson of the BOD recording:



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"I have noted Transnet's intention to acquire 1064 locomotives over the next seven (7) years at an estimated cost of R38.6 billion. I am aware that the acquisition aims to facilitate the ramp up in volumes transported from the current 80 million tons to 170 million tons as envisaged in the Market Demand Strategy (MDS) which forms the basis of Transnet's 2013/14 Corporate Plan.

However, I am concerned that the profitability of the project is highly dependent on Transnet's General Freight Business (GFB) being able to grow the volumes transported at amounts above GDP growth and tariffs charged at above CPI. Failure to achieve these optimistic growth figures would have an adverse effect on the expected revenues and thus the profitability of the project. Moreover, potential fluctuations in the operational costs could also adversely affect the profitability of the project.

The success of the project entails further capital expenditure, including the purchase of wagons and other expansionary expenditure is incurred.(sic) Therefore, I will be expecting a further Section 54(2) disclosure on all relevant capital expenditure associated with the project.(own emphasis) Furthermore, Transnet must submit a detailed implementation plan demonstrating how the above GDP growth volume increases and how the above inflation tariff increases anticipated in the MDS will be achieved together with the possible mitigation strategies. In addition, operational costs must be monitored and rigorously controlled throughout the lifespan of the project to avoid any cost escalations.

Moreover, I have noted that, whereas Transnet is claiming that increasing locomotive capacity and efficiency will lead to lower tariffs for customers; real increases in tariffs are in fact being projected to sustain the project. Transnet must provide regular feedback to National Treasury on their initiatives to attract customers from road to rail.

I look forward to the finalisation of the project and request that Transnet submit quarterly feedback to National Treasury on the status of the acquisition and the above mentioned related issues.

I trust that you will find the above to be in order."

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- 31 On 27 December 2013 a memorandum was circulated from the then Group Chief Executive, the Group Chief Financial Officer and the TFR Chief Executive, to *"The Chairperson (Mr. Thamsanqa Jiyane) and the Cross Functional Evaluation Team (CFET)"* of the Transaction, wherein it is recorded:

"PURPOSE:

1) The purpose of this memo is to;

- *Acknowledge receipt of the final report from the CFET dated 23 December 2013.*
- *Approve that option 3 (excluding unscheduled and excluding scheduled maintenance and excluding bonus point allocation) for evaluations will be considered for final evaluations including the final recommendation;*
- *Authorize the CFET to issue a request for the best and final offer for both the tenders for 599 New Dual Voltage Locomotives (to only the top 2 highest scoring tenderers while the rest will be informed that Transnet will only engage them should negotiations with the top 2 be unsuccessful and 465 New Diesel Locomotives (all the 4 bidders) for the GFB;*
- *Note that the above actions are subject to Board of Directors approval;*
- *Recommended to the Transnet Board of Directors to negotiate with 2 highest scoring tenderers and to award the business for the supply of 599 New Dual Voltage locomotives; and*
- *Recommend to the Transnet Board of Directors to negotiate with 2 highest scoring tenderers and to award the business for the supply of 465 New Diesel locomotives.*

MOTIVATION

- 7) It is critical for Transnet to receive these locomotives as soon as possible due to the impact on MDS volumes.**

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8) *The recommended approach allows for the most efficient and effective BADC and Board approve' process whilst still addressing the commercial concerns around pricing.*

9) *The tenders will be split between 2 tenderers each i.e. there will be 2 tenderers awarded the 599 New Dual Voltage Locomotives and 2 tenderers awarded the 465 New Diesel Locomotives.*

10) *The selection of 2 tenderers in our opinion reduces delivery risk; allows for locomotive standardization and reduced complexity from a TE build perspective.*

11) *The request for the Final and Best offer on both tenders will be finalised after the final and best offers are received but before submission to Board for approval.*

12) *The Chairpersons of the BADC and Board of Directors of Transnet has (sic) been briefed on the above process and the recommended way forward and they are both in support of this process.*

13) *TIA has also been has been (sic) briefed on the above process and the recommended way forward and they are in support of this process."*

31.1 Annexure B to this memorandum records:

"Note: 1. The BAFO prices requested from bidders was without the use of TE as a subcontractor. Therefore the impact of using TE as main subcontractor is already being factored into the initial BAFO price."

32 On 17 January 2014 a memorandum was addressed to the BADC from the then Group Chief Executive, SOC Ltd, Brian Molefe which records:

"SUBJECT: REQUEST FOR APPROVAL TO NEGOTIATE AND AWARD OF BUSINESS TO THE SHORT LISTED TENDERERS FOR THE SUPPLY OF 599 (COCO) NEW DUAL VOLTAGE LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS

PURPOSE:

1) *The purpose of this memo is to;*

- *Provide an update to Transnet Board Disposals and Acquisitions Committee the progress on the tender evaluation process; (sic)*



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- Note and recommend the approval of the tender evaluation process from step 1 up to step (sic) to the Transnet Board of Directors (BOD);
- Support the recommendation of the shortlist of tenderers as a result of the tender evaluation process for the negotiations and award of business to BOD and
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions.

...

10) A sub-committee of the LSC was established to deal with the very confidential and detailed matters of the evaluation process (Own emphasis) and this committee comprised the GCE, GCFO and CE TFR.

11) The CFET reported its finding to this subcommittee for consideration.

...

37) However the pricing of the locomotives posed a commercial exposure for Transnet (own emphasis) and also the National Treasury concern (sic) of not paying excessive premiums as outlined in the PPPFA guidelines of premiums not being more than 11% by the use of the 90/10 evaluation.

...

40) The outcome of the best and final offer is as follows:

- T1 offered to increase procurement to small businesses by R50 million and technology transfer through skills development training and support by R10 million. In addition they offered a R455 000 reduction in price per locomotive based on a revised foreign currency content percentage.
- T2 offered a discount of 2.25 million per locomotive, including a revised foreign currency content amount, thus offering the best price.

The above process has almost eliminated the premium on the transaction." (Own emphasis)



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MOTIVATION FOR SPLIT OF BUSINESS AWARDED

41) The original MDS volumes as promised in the corporate plan are significantly at risk.

42) This is due to the lack of tractive effort at TFR due to the delays in the award of this tender mainly due to the PPPFA issues experienced.

43) In order to not further increase this risk it is suggested that more than one supplier be used to supply the required locomotives to reduce delivery risk and enhance our ability to meet MDS volume targets.

44) We recommended that two suppliers be used to manufacture the required locomotives.

45) This view is supported by the following reasons:

- a) Promotes standardization of the locomotive fleet to ensure TCO is minimized.
- b) Allows for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions.
- c) Allows for critical mass that would promote localization and programmatic procurement
- d) Allows for flexibility in supplier options in future as it prevents monopoly behaviour
- e) Reduces the legal risk of the transaction and
- f) Reduces the overall contract risk of the transaction due to unforeseen circumstances

46) We further believe that the above will be achieved by 60% allocation to T2 and a 40% allocation to T1 of the contracted locomotives.

...

CONCLUSION

...

49) Short list the award of business to T1 and T2 for the supply of 599 electric locomotives subject to successful contract negotiations.

50) Split the award of business to the above suppliers by a 60% allocation to T2 and a 40% allocation to T1 of the contracted locomotives subject to a performance clause in the contract."



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- 33 Page 10 of the draft report of the Finance Negotiation Team to the then TFR CE and the GCFO styled "Key outcomes from the negotiations for the acquisition of 1064 new Locomotives concluded in March 2014", records:

"Notes:

The forecast were based on using historical trends of appropriate indices as calculated by Regiments Capital. (Own emphasis)

The calculations above are based on information available at a point in time to Regiments. (Own emphasis)

The above calculations were prepared to demonstrate the impact of reducing the batch size and will not tie up to the final negotiated position." (Own emphasis)

- 34 On 21 January 2014 Transnet addressed a letter to the bidders wherein the following is recorded:

"Dear Sir,

REQUEST FOR BEST AND FINAL OFFER: TENDER No: TFRAC-HO-8609

1. *The above matter, our letter dated 4 January 2014 and your letter in response dated 9 January 2014 refers.*
2. *We wish to point out that the Request for Proposals in respect of the 465 Diesel Locomotives made it very clear that it is compulsory to use Transnet Engineering (TE) as a subcontractor.*
3. *Based on the above requirement, bidders were not expected to submit a proposal using any private sector company as a subcontractor and it would be very unfair to even consider any offer which included such an option since TE was a compulsory option.*
4. *Should Transnet now consider a private sector option/offer, it will only be fair to give all bidders an opportunity to provide such an offer which our request of 4 January 2014 has done.*
5. *We therefore wish to advise that all bidders have been asked to submit an alternative private sector in their best and final offer in order to ensure that the process is fair to all bidders.*
6. *Based on what is set out above, Transnet is of the view that the integrity of the procurement process has not been jeopardised.*



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Yours faithfully

*Brian Molefe
Group Chief Executive
Date: 21.1.14."*

- 35 In the excerpt from the minutes of the Special BOD Meeting No. 14/1 held on 24 January 2014 it is recorded that:

"4.1.2 Mr Sharma stated that the matter was dealt with at the Board Acquisitions and Disposals Committee ("Committee"). The request for a confinement had been on the Committee's agenda for 3 months, and the matter was extensively deliberated by the Committee. The Company currently has a contract with General Electric South Africa Technologies in terms of the Class 43 diesels. The proposal was to confine the 100 Electrics to China South Rail. There were adverse media reports on the previous Mitsui confinement's processes. To manage reputational matters, the Company seeks to advance a new supplier. Management indicated that the TFR Locomotive Fleet Plan was first approved by the Board in April 2011, and updated with the 1064 GFB Locomotive submission. The proposed locomotive acquisition are in line with the Fleet Plan and were budgeted for the MDS. The delay in the 1064 acquisitions has placed GFB volumes at risk. The risk will be mitigated by the urgent acquisition of the locomotives. The heavy haul 100 Electrics will be deployed in the Coal Export line and will release 125 locomotives that will be used on GFB pending delivery from the 1064 programme. The 100 Electrics form part of the already approved Fleet Plan. The 60 Diesels also fill the gap pending delivery from the 1064 programme. The 60 Diesels were not part of the approved Fleet Plan and the submission requested an amendment to the Fleet Plan to include the 60 Diesels. (Own emphasis)



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4.1.3 Management informed the Board that the 1064 Locomotives were delayed due to the withdrawal of the PPPFA exemption (Own emphasis). The submission proposed an accelerated procurement to mitigate General Freight MDS volumes at risk by confining 100 Electrics to China South Rail and extending the current Class 43 Contract with 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 2014/15FY. The volumes mitigated increases from 6.2mt for the 2014/15FY to 15.1mt for the 2016/17FY and the cumulative income protected will be R9.1bn for the 2013/14FY to 2016/17FY. The confinement of China South Rail and extension to General Electric South Africa Technologies contract was motivated on the basis of urgency (Own emphasis). The accelerated acquisition does not put the MDS cash flow at risk and the 1064 acquisitions remains unaffected (Own emphasis). The acquisitions are funded from the current MDS. The delay in the 1064 locomotives will extend its funding to beyond the MDS period. The Diesels were in addition to the approved Locomotive Fleet Plan but accord with the fleet strategy. With a year's delay in the 1064 procurement, the 60 Diesels will fill the gap of the first year.

4.1.4 Management stated that the 100 Electrics business case articulated the benefits of the earlier than previously planned delivery of the locomotives to the Coal Export line. TFR was in the process of acquiring 143 Class 43 Diesel Locomotives from General Electric South Africa Technologies (which have been delivered over the past 2 years and have proven to be a capable locomotive). Given the MDS volume shortfall, it was proposed that 60 Diesels be acquired to further mitigate the volume risk as the 1064 programme is likely to come on stream in 2015. The procurement process was carefully considered, with the aspects considered articulated as follows:

* **Type:** the 100 Electrics are 26 ton per axle locomotives for heavy haul use to be deployed on the Coal Line. The 599



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Electrics in the 1064 are 22 ton per axel locomotives for the GFB use.

** Delivery: the 60 Diesels were similar to the 465 of the 1064, but the motivation for the extension as contained in the submission was urgency due to the overall delay in the 1064 programme. Including the 60 Diesels in the 1064 will not address the delay or urgency. (sic)*

...

4.1.7 Mr Gazendam sought clarity if the recommendation from the Committee was unanimous. He stated that the 60 and 100 locomotives were being awarded to the same entities recommended for the 1064 transaction, and requested Management to ensure that the matter is dealt with sensitively in the media (Own emphasis). Mr Skosana stated that the Committee extensively deliberated on the matter and requested the Committee to share critical matters that were an impediment on the Transaction. Mr Sharma informed the Board that the Committee was of the view that the initial business case was not properly articulated (Own emphasis). Further, the Committee had considered the reputational risk linked to confinement processes. However, the Committee was subsequently convinced by the revised business case and comforted by the fact that the 160 locomotives were awarded to the same entities that were being recommended for the 1064 transaction. Management informed the Board that the Committee had also requested the Company to explore alternative methods for acquisition e.g. leasing options for the locomotives. To this effect, the Company will procure 23 second hand locomotives from Australia."

36 As per the "Excerpts from the Minutes of the meeting of the Board Acquisitions and Disposals Committee no 14/2 held on 26 February 2014", it is recorded:

"5.1.3 Ms Mnexasana requested Management to elaborate on TE's Scope of Works as it was not included in the original amount (Own



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emphasis). She sought clarity if the rolling of prices was extended to the additional non-shortlisted bidders and whether it had an impact on the outcome for the 2 existing bidders. Mr Mkwanazi sought clarity on the hedging and the price fixing. He further requested the Group Chief Financial Officer to explain final locomotives costs of R38,6bn (Own emphasis). Management informed the Committee that the delivery timeframes were significantly shortened and that 48 locomotives should be delivered per month. Management undertook to provide detail on the TE Scope of Works, in particular the methodology which will be submitted to the Office of the Group Chief Executive for approval. Management advised the Committee that the warranties that could conceivably reduce the price still had to be agreed upon.

...

5.1.5 Management indicated that 18 months prior to the evaluation process, inflation was lower than the current 6%. The supplier will price the risk premium. The Rand price and foreign exchange will be amended. The Company will avoid taking any risk. The 6% CPI was equal to 26% relating to a reasonableness test on escalation. The Company decided to fix the price to limit exposure.

...

5.1.8 Mr Mkwanazi sought clarity on the sum total of R37bn. Ms Njeke stated that the total cost of the acquisition was not reflected for the Committee's consideration, therefore making the total costs unclear. She was concerned that some costs elements were missing from the presentation that was presented by Management, such as the Scope of Works for TE and the total value (Own emphasis). She requested that TE's scope value be stated. She sought clarity whether the Company reviewed the number of locomotives being procured as it appeared that the Company had reached the target of 1066 locomotives.(sic) She further enquired if the Company was planning on using the R38bn in light of uncertainty with future amounts. She stated that National



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Treasury tolerated up to 11% on price differences. The Company's price difference amounted to 125% which far exceeded National Treasury's limit. In response to the Committee's request, Management submitted an updated schedule regarding the R52bn for reconciliation purposes. (Own emphasis).

5.1.9 Ms Forbes stated that there was inconsistency in the completion of the scheduled and unscheduled maintenance. She sought clarity on the quantification of the schedules. She encouraged thoroughness in procurement. She stated that there were now 12 locomotives produced per bidder, from the 48 locomotives per month for 4 bidders on Diesel and Electric locomotives.(sic) She sought clarity if the Committee would have a constantly growing budget. Management stated that, the Company was below the R38bn target (i.e R37bn) in terms of base price and the approved budget. Additional amounts included hedging and escalation which will be reviewed by Group Treasury. Management informed the Committee that the Company was within budget regarding the 1064 locomotives.

5.1.10 Management informed the Committee that TE's Scope of Works was agreed upon and signed off. Management still needed to agree upon the 20-25% allocation for TE. Management will negotiate with the OEMs. Management stated that in terms of TE's scope, the Company should treat the bidders with consistency. In relation to the RFP, escalation and Foreign Exchange batch pricing will be applied. The bidders were informed that they needed to form their expectations of TE. However, the Company will inform the bidders of its view regarding TE's role. Management informed the Committee that the "rolling of prices" excluded the non-successful bidders. The 2 bidders were competing against each other. The impact of forex on the amount of R312bn (sic) was that the price of the portfolio will be effected by the devaluation of the Rand etc. Forex amounted to 60% and 40% was



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local currency for this transaction, causing it to be affected hence the Hedging. The ETC including hedging and escalations costs is R52bn. Management advised the Committee that the ETC and locomotives pricing is subject to change pending confirmation of final TE Scope of Works and any further potential discount negotiations.

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 of the Risk and Mr Singh.(sic) 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 an independent expert. A conversation on how the matter will be finalised will be communicated with the Chairperson. (Own emphasis).

The matter was in-progress.

- 37 On 23 May 2014 the then Group Chief Executive addressed a memorandum to the BOD, which records:

**"SUBJECT: INCREASE IN ESTIMATED TOTAL COSTS (ETC) OF THE ACQUISITION OF 1064 LOCOMOTIVE FOR TRANSNET FREIGHT RAIL'S GENERAL FREIGHT BUSINESS (GFB)
PURPOSE:**

- 1) The purpose of this memo is:
 - g) For the BOD to note the reasons for the increase in ETC
 - h) To request that the BOD approve an increase in the estimated total costs for the acquisition of 1064 Locomotives for the General Freight Business of Transnet Freight Rail from 38.6 billion to 54.5 billion.



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...
17) Although the approval from the Minister was not subject to a final cost of 38.6 billion, for good governance and for information purposes a letter will be sent to the DPE advising of the final ETC.

...
37) A historical regression analysis conducted by Regiments Capital Indicates (sic) that the ZAR currency is on a trend of devaluation as indicated in Table 5 above.

...
43) The cost to hedge this exposure was obtained from banks by the suppliers. This was then vetted by Transnet Treasury and Regiments Capital for reasonability. They both found the rates and costs to be acceptable."

38 We note the following extract from a Transnet Internal Audit ("TIA") report issued on 8 August 2017, period of review being 1 April 2016 to 31 December 2016, at page 11:

"Project status at 24 March 2017

- *The revised delivery schedules agreed with the applicable OEMs (as outlined above) have thus far not required an increase in ETC (R54.4bn). Overall project completion is currently planned for October 2020 (excluding BT).*
- *Progress against delivery schedules are monitored on a continuous basis and remedial action implemented where applicable and reported to the relevant governance forums.*

However, the following potential impacts/ risks remain:

- *Investment risk on BT, given the amount spent vs. delivery to date, given their financial position.*
- *Possible additional operating costs, as Transnet has to refurbish old equipment to maintain operations in the interim while the new locomotives are delivered and accepted in to operations."*

39 On 26 September 2017 a letter was addressed by Thomas Konditi of GE Transportation to the GCE recording:

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Dear Mr. Gama,

As Transnet is aware, in June of this year, leadership of the Economic Freedom Fighters ("EFF") alleged serious improprieties relating to the Transnet 1064 locomotive tender, including that Transnet, GE and the three other successful bidders fraudulently inflated bid prices. GE takes such allegations very seriously as we pride ourselves in conducting business with an unwavering commitment to compliance and integrity. Upon learning of the allegations, GE launched an internal review. I am writing to briefly summarise our findings which confirm that GE's participation in the tender process was fully compliant.

In response to the allegations that GE improperly inflated prices by as much as ZAR 11 million per locomotive, we set out to independently and thoroughly review the reasons for any GE changes. Our review, which took several weeks to complete, was conducted by lawyers and investigators from GE's legal and compliance teams, with support from GE's corporate audit staff. The team looked at pricing from the pre-tender phase to final contract price.

GE's review confirmed that the "Price inflation" allegations by the EFF against GE are without merit. ..."

OBSERVATIONS

- 40 We commence these preliminary observations with an account of certain of the events that have precluded the authors from delivering the report within the timeframe determined in terms of the provisions of the Mandate. We set out below the principal issues that have had a fundamentally negative impact, some of which continue to hamper the progress of producing a draft report as mandated by the Board.
- 41 It is our *prima facie* observations as to the apparent existence of either unsubstantiated and/or contradictory policy application and/or the non-adherence to legislation. We caution that these preliminary observations require extensive further investigation and analysis of relevant



information/material, including submissions and responses from several individual key role players. In this regard and notwithstanding what is stated in paragraph 15 above, we note the following provisions of Transnet's policies/governance framework have a bearing on these preliminary observations:

41.1 TRANSNET SUPPLY CHAIN POLICY TRANSNET SOC LTD SUPPLY CHAIN POLICY/ISCM15/1P TG VERSION 3, SEPTEMBER 2013 ("TRANSNET'S POLICY"):

- 41.1.1 Transnet's policy sets out a broad framework and founding principles that are to inform procurement within the organisation. Transnet's Policy applies to all procurement activities at Transnet.
- 41.1.2 Transnet's Policy envisions a procurement process that occurs in the following five stages:
 - 41.1.2.1 firstly the identification of a commercial need for the goods or services within Transnet;
 - 41.1.2.2 a selection of the best options available to Transnet to determine an optimum sourcing plan to be followed and secure the necessary budgets;
 - 41.1.2.3 the development of a projection definition including the acquisition and logistics management and risk management in anticipation of effecting a procurement event;
 - 41.1.2.4 the implementation of the project which comprises of the procurement, construction and commissioning; and
 - 41.1.2.5 the close of the project which includes the Handover, ramping down of resources and project close.



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- 41.1.3 the basis for these requirements is that State organs are accountable to the National Treasury for their actions, in so far as finances are concerned. The requirement of reasons in writing ensures that the National Treasury is informed of the relevant considerations that were taken into account in electing to dispense with the tender process. This enables the National Treasury to determine whether there has been any financial misconduct and, if so, to take the necessary steps thereafter.
- 41.1.4 the High Value Tender Process subjects all transactions falling within the High Value Tender threshold to independent scrutiny and validation of all commercial contractual, process and Governance aspects of the Bid process.
- 41.1.5 High Value Tender ("HVT") team must attend to all procurement processes and advise entities during each phase of the process.
- 41.1.6 the HVT team must report significant process breaches to Transnet management. Firstly at entity level, and if still not satisfied with the outcome / corrective actions, such matters must be reported to the Operating Division Chief Procurement Officer before being escalated to the Group ISCM.
- 41.1.7 HVT team must document lessons learnt throughout the process and provide feedback so that processes may be improved.

41.2 **TRANSNET PROCUREMENT PROCEDURES MANUAL VERSION 2
OCTOBER 2013:**

"Chapter 20: Bid Adjudication

...

20.1 GENERAL PRINCIPLES



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Adjudication can best be described as the validation of the process leading to the recommendation of the Successful or Preferred Bidder/s. It is important to note that there are two different elements to this and these are often confused.

...

20.2 THE ROLE OF THE AC DURING ADJUDICATION

The function of the AC is to validate both the process related aspects as well as the commercial aspects of the bid process. The AC is required to satisfy itself that all Bidders were treated fairly in the bidding process and that the process was conducted in accordance with the applicable regulatory framework and Transnet's internal rules. The AC is also required to determine that the price to be paid by Transnet is market related, that the commercial terms and conditions are fair and reasonable and that the award of business is in the best interests of Transnet.

...

20.2.12 the award of business to the recommended Bidder would not be harmful to Transnet's image. In this regard, it must be borne in mind that Transnet is a public company and its sole shareholder is the Government of the Republic of South Africa. For this reason, business transactions with entities that could harm Transnet's image should be avoided;

20.2.13 price and other commercial terms are market related; and

20.2.14 the award of business does not pose any other legal or material risks to Transnet that has not been mitigated

...

20.4 SPLITTING OF BUSINESS

The AC should enquire where the splitting of the award of business was considered during evaluation, as this is a feasible mechanism to promote the development of new entrants into the market. Transnet's standard bid conditions allow for the selection of multiple suppliers or the award of the whole, or any part of a Bid to any particular Bidder.



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Transnet may also choose not to make an award if there are valid grounds for doing so.

42 The object of the PFMA is to ensure transparency, accountability and sound financial management of the revenue, expenditure, assets and liabilities of the institutions to which the PFMA applies. To that end:

42.1 Brain Molefe's memorandum of 17 January 2014, at paragraph 37 thereof, needs to be interrogated having regard to the then Minister of Finance's letter of 26 April 2013 addressed to the MPE;

42.2 in addition to Transnet's letter of 11 March 2014, penned by the then Chairman of the Board and addressed to the then Finance Minister, we are advised of the existence of further correspondence between the two offices pursuant to the Finance Minister's letter of 30 October 2013; and

42.3 the search for the above further correspondence is still to be completed.

43 The background facts as well as the assumptions that may be relied on in these preliminary observations include but are not limited to the PWC report authored by Dr Shaw regarding TE's production readiness for 1064 locomotives assembly, the PWC report authored by Lionel Van Tonder ("PWC report"), the Public Protector Report issued October 2016, the Bundlender SC report of 29 June 2017 and numerous media publications. We do not opine herein on the accuracy of the information or assumptions therein.



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- 44 As previously mentioned, during the course of June 2017, the GCE made available the EFF pro-forma charge sheet comprising of 27 pages and styled "GUPTA-ZUMA-SHARMA-ESSA-MOLEFE & TRANSNET THEFT OVER R10.6 billion (1064 x R10m)". Werksmans have pursuant thereto advised the Board on the liability of directors and the possible conflict of interest involving Mr Iqbal Sharma. These considerations and views have been reduced to writing and addressed to the current Chairperson of the Board.
- 45 Regard being had to the expectation that Transnet would have ensured the timeous delivery of a comprehensive chronology of evidence relating the Transaction and specifically in view of the public expectation, we are, following our preliminary and limited analysis, concerned that in general Transnet has materially and fundamentally failed to the process adequately or at all.
- 46 In amplification hereof:
- 46.1 certain of the documents produced were either incomplete (i.e. excerpts of minutes, rather than the entire minute) and/or were not accompanied by annexures and/or other documents referred to therein;
- 46.2 in so far as excerpts produced are concerned, these are in the main not verified/ certified as copies/excerpts from relevant meeting minutes, despite the fact that such excerpts contain pertinent resolutions pertaining to the Transaction;
- 46.3 some of the documentation produced was placed in issue when examined and thus the veracity of such documentation is now questionable. We have interviewed members of the technical team who deny the veracity or otherwise of statements attributed to them around aspects of "*The request to 'normalise' the base price*";



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47 To illustrate the points above we note our concerns arising from the minute the Special BOD Meeting held on 25 April 2013:

47.1 we are not in possession of the following documents referred to Ad paragraph 4.4.1; the submission as contained in the pack; and the "Committees inputs and amendments" which were effected post the issue of the board pack;

47.2 from an email of 26 of April 2013 pursuant to the Special BOD Meeting, it is recorded that –

"...we will be forwarding around the recent version of the business case shortly" – we require a copy of this recent version of the business case"

47.3 Ad paragraph 4.4.4, regard being had to the debate on the proposal "to appoint an independent expert on the transaction" we require clarity and/or details on the mandate given to McKinsey Consortium and any other independent expert, especially in light of the memorandum of 12 August 2012 addressed by Mr Anoj Singh to Mr Brian Molefe, the relevant portions of which read –

"Subject: APPOINTMENT FOR TRANSACTION ADVISOR ON THE 1064 LOCOMOTIVE TENDER

Purpose

- 1. The purpose of this memorandum is to request approval of the Group Chief Executive for the appointment of the McKinsey consortium for the complete advisory services and Webber Wentzel for the legal advisory work as Transaction advisors on the 1064 locomotive tender.*

Purpose

- 19. It is recommended that the Group Chief Executive approve the appointment of the McKinsey consortium for the complete advisory*



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services and Webber Wentzel for the legal advisory work as Transaction advisors on the 1064 locomotive tender."

- 47.4 We note, that an agreement was entered into between Transnet SOC Ltd and McKinsey Incorporated on or about 21 February 2014. Clarification is sought as to the period of the agreement. We are unable to reconcile the existence of the agreement given the alleged discussion held at the Special BOD Meeting at paragraph 4.4.4 as stated above. With regard to the execution version of this agreement, we would require sight of the purchase orders with reference to paragraph 2.2.1 thereof as well as the deliverables at 2.9 and finally the work order(s);
- 47.5 we have received no evidence to gainsay the veracity of the appointment and deliberations of any independent experts in the Transaction. We note however, having obtained an unsigned document authored by David Potter, managing director of Advanced Rail Technologies Ltd, styled "*Briefing Note*" with an appendix thereto styled "*Initial Briefing Note*". We have also observed the existence of an entity styled Regiments, who we understand were consulted during the period of the Transaction. We pause to mention that there have been numerous requests for their deliverables which have not been furnished. See our further observations hereon below;
- 47.6 an excerpt from the draft minute of this Special BOD Meeting, as certified by Ms Ayanda Ceba - the Group company secretary at the time, dated 26 April 2013 records that the BOD resolved to approve the business case in paragraph 6.1 of this version of the minute excerpt. We are unable to reconcile this recordal by Ms Ayanda Ceba having regard to the resolution per the minute per paragraph 7 above, which document contains the BOD resolution immediately below paragraph 4.4.10 thereof; and



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- 47.7 we have also received from Group Secretariat a third version of an excerpt from the minute of the Special BOD Meeting, which is also distinguishable on the basis that the page numbering cannot be reconciled with the document per paragraph 7 above and that on the first page of this third version, 2 manuscript initials appear in the right hand margin. Lastly paragraphs 4.3 to 4.7 have been omitted from this third version. One of the distinguishable signatures/initials is that of the then company secretary, Ms Ayanda Ceba; and
- 47.8 we do not have the minute wherein the BADC recommends to the BOD the approval of the final business case. We have instead an uncertified excerpt of the meeting held earlier that day where the Preferential Procurement Policy Framework Act, 5 of 2000, ("PPPFA") exemption is discussed.
- 48 Of some documents only drafts were provided, notwithstanding numerous requests for issued versions. They may be innocent explanations but this inexplicable conduct displayed to date has been recorded from time to time.
- 49 In addition and as foreshadowed above, we have had regard to certain correspondence dealing with regulatory framework, in particular PFMA and PPPFA provisions, which have been examined with the office of Finance Minister and enquiries were made which remain unanswered.
- 50 We reiterate, there remains a plethora of outstanding information and evidence.
- 51 As is common cause, TFR entered into fixed price contracts on 17 March 2014 ("signed contracts") with each of the Original Equipment Manufacturers ("OEMs") to supply and deliver the 1064 locomotives. In turn, the OEMs entered into contractual arrangements with TE to co-manufacture the majority of the locomotives in South Africa.
- 52 Under the signed contracts TRF contracted with the four OEMs (and TE), to deliver the four classes of locomotives as indicated below:



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OEM	Class of Locomotive	Quantity	Costs (Budget) (2017)
China South Rail (CSR)	22E	359	R18.0bn
China North Rail (CNR)	45D	232	R10.0bn
General Electric	44D	233	R8.4bn
Bombardier Transportation (BT)	23E	240	R13.1bn
Contingency			R4.9bn
Total		1064	R54.4bn

- 53 The unsigned report by TFR Finance styled *"key outcomes from the negotiations for the acquisition of 1064 new locomotives concluded in March 2014"* must be interrogated and clarified, having regard to observations and in particular, factors influencing the decisions read with the final version of the business case. This observation is further bolstered by the fact that TFR Finance personnel have contended that this document forms the basis upon which the submission to the BOD was prepared, which submission motivated the increase in the Estimated Total Cost for the Transaction.
- 54 In accordance with the Mandate we have had sight of an agreement styled **"BUSINESS DEVELOPMENT SERVICES AGREEMENT"** which contains an annexure thereto which appears to have been concluded on 20 November 2014 (notwithstanding the reference to the agreement date being May 18, 2015 on the cover page) by duly authorised representatives of CSR E-Loco Supply (Pty) Ltd and CSR (Hong Kong) Co. Ltd. In so far as the BUSINESS DEVELOPMENT SERVICES AGREEMENT may give rise to cross-border non-compliance and/or money laundering, the precise nature of the terms of the transaction embodied in the agreement will be examined in consultation with the South African Reserve Bank ("SARB").



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55 There has been a public outcry regarding allegations of kickbacks facilitated through subcontractors of CSR E-LoCo Supply (Pty) Ltd in relation to the Transaction. Correspondence dealing with these pertinent allegations has been exchanged between Transnet and the OEM concerned. The allegations warrant the attention of Transnet's external auditors given the latter's reporting duties and the applicable legislative framework.

56 In the course of our discussions with the SARB we have been informed of correspondence emanating from *inter alia* the office of the then GCFO, directed to an OEM dealing with *inter alia* penalty interest payable as well as compensation for the exchange rate losses in terms of the Locomotive Supply Agreement entered into on 17 March 2014. Furthermore, as to the existence of agreements between the OEM and further subcontractors apparently situated in Hong Kong, The existence of the said agreements will need to be interrogated:

56.1 we pause to mention that we have perused a letter from the OEM to the GCE of July 2017 emphatically denying that a relationship exists with any third party supplier. The veracity of such correspondence is placed in issue.

57 A PWC report, being an investigation into allegations of a possible conflict of interest involving Mr Iqbal Sharma, concluded that Mr Iqbal Sharma was conflicted in relation to the award of the Transaction. We pause to note that this report was not received, so we are advised, by the incumbent BOD of that time. We note there are instances of conflict of interest in relation to the Transaction that require further investigation and/or interrogation. One such instance involves the BOD having appointed PWC to assist with the forensic investigation relating to conflict of interest allegations in the media. These allegations relate to a possible conflict of interest involving Mr Iqbal Sharma, the then chairperson of Transnet's BADC, involving the evaluation and other aspects of the Transaction.



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- 58 We note that members the BOD approved the business case during or about April 3013. We have observed that the BOD paid scant regard the PWC report, November 2014, on the potential conflict of interest issues in the Transaction in relation to Mr Iqbal Sharma. To the extent that the BOD in that period was supine is a matter that requires far more elaborate interrogation (See *Howard v Herrigel and Another NNO 1991 (2) SA 660 (A)*). It is our *prima facie* observation that the BOD as constituted at that time operated in disregard of relevant Transnet policies and/or governance framework read together with section 75 of the Companies Act as well as other applicable legislative provisions.
- 59 In relation to conflict of interest during the award of the Transaction, our *prima facie* observations are that unless additional information is produced to gainsay our views, members of *inter alia* the Locomotive Steering Committee as well the BADC failed to recuse themselves timeously or at all. This omission may constitute a contravention of Transnet policies/ governance framework and other applicable legislative provisions.
- 60 The following significant risks have been reported on by TIA in a report issued on 8 August 2017:
- 60.1 deficiencies in project management practices which may have a negative impact on the timely delivery of the project as well as potential budget overruns;
 - 60.2 continuous changes in the market conditions that could have negative impact on the programme and project business case;
 - 60.3 funding availability that could necessitate the delayed completion of the assets, with resultant cost escalation;²

² TIA 8 August 2017- Period of Review 1 April 2016 to 31 December 2016.



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- 60.4 investment risk on one of the OEMs, given the amount spent versus delivery to date, given their financial position; and
- 60.5 further delivery slippage and/or potential claims and/or escalations which may result in the contingency not being sufficient to complete the project within the current approved total estimated cost. The residual risk pertaining to the project is considered to be high.³
- 61 We note the following statement from a recent TIA report:

"As at the 2016/17 financial year end, 44% of the R54.4bn has been incurred with 19% of locomotives delivered and accepted. It should be noted that there is no direct correlation between cash flow incurred versus locomotives delivered, due to various contractual prepayments to OEMs relating to factory set up, relocation etc." (Own emphasis)⁴

- 62 We procured information from Mr Mohammed Moola of TF. and members of the TIA. The evidence is inconsistent with what was reported on for the same period by the internal auditors. Further investigation and clarifications are required in this regard with the assistance of the forensic auditor. This specific finding was to do with Local content. The finding was that no local content verification has been conducted to date on OEMs, which TIA recognises is a huge potential reputational risk to Transnet. Our attention was also drawn to the African Newswire article of 16 September 2017 styled "South African Parliamentary Committee calls for probe into the train locomotive purchase".

³ See note 2 above.

⁴ See TIA Report styled 1064 Locomotives Acquisition Control Effectiveness Review, Issue date 8 August 2017.



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- 63 We understand from members of TIA that this constituted a material reputational risk which was highlighted in a report circulated to a Board committee on or about 24 August 2017. Furthermore, the TIA representative interviewed recommended that the Financial Interim Review Policy be interrogated in so far as the terms of governance and failure to comply therewith evidenced a systemic risk within the organisation.
- 64 In addition, the cause of concern is the failure by Transnet to implement the Financial Interim Review ("FIR") and the Post Implementation Review, which review standards have not been maintained and strictly adhered to. The auditors of TIA will need to be held accountable and if necessary any such omissions may require the attention of the professional Regulator.
- 65 Given the limitations of these preliminary observations, further inquiries will be directed in the course of the further investigation on the basis of the extension having been granted, which will include, *inter alia*, our observations.
- 66 The absence of correspondence between the office of the Minister of Finance and the Chairperson of the Board at the time, save for the letter from Transnet of 11 March 2014, needs to be examined. We also note in this regard the context and statement of Mr Brian Molefe contained in item 17 of his memorandum dated 23 May 2014.
- 67 The absence of any explanation or rationale for a decision in respect of the best and final offer request in so far as certain bidders were to be excluded, as evidenced in the memorandum of 27 December 2013, needs to be interrogated.



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- 68 Consideration of the deliberations to subcontract TE in the final scope and its impact on the increase of costs of the preferred bidders (see letter of 21 January 2014 read with the Minister of Public Enterprises' recommendations, giving rise to a R2.6 billion increase in the final scope) requires investigation. That this is so has been emphasised by the failure of TE as a subcontractor. The mandate as currently referenced allows for the forensic auditor to probe TE and its procurement strategy.
- 69 The special BOD of 24 January 2014 illuminates the significant role played by Mr I Sharma. In the context of the Van Tonder investigation the evidence needs to be further interrogated.
- 70 Regard being had to the discussions which are recorded in an excerpt of a minute of the BADC of 26 February 2014, clarification will be required in so far as the business case had addressed the significant exposure on forex and hedging costs, as well as the reliance on outside consultants such as Regiments and Advanced Rail Technologies. In so far as managements statements regarding confinements of additional locomotives, when TFR was on record as having stated that it was experiencing capacity issues to accept delivery as anticipated had already been constrained at that time, needs to be investigated. Consideration of capacity of the OEMs to perform in terms of the 1064 award and the confinement/s requires further investigation.
- 71 Relocation of 2 OEM's from Koedoespoort to Durban have always been understood to have been a requirement stemming from Transnet to the OEM's. This has been believed to have been done at contracting stage and has always been understood to be part of the supply agreement entered into between the OEM. There have been some concerns raised over the period 2016 to date from various sources including media, BEE partners of some of the OEM's and TIA is currently tasked instructed to provide a post review into the move to Durban.
- 72 We record that the following is still under consideration in regard to relocation:



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- 72.1 Global Railway Africa (Pty) Limited, a minority shareholder of CNR, having placed on record in writing the following enquiry:

"...whether or not TFR was satisfied with the transaction so as to in turn enable us as directors to determine whether or not we had a duty to report certain questions we had regarding the transaction to the SAPS pursuant to the relevant anti-corruption legislation".

- 72.2 the recommendation contained in the memorandum from Mr Ravi Nair, acting Chief Executive Transnet Freight Rail, to Siyakanga Gama Acting Chief Executive at Group, which was signed for Mr Ravi Nair in his absence on 19 May 2015, will of necessity receive requisite further attention in that it records the following:

"PURPOSE

1. Request the Acting Group Chief Executive (GCE) to approve the following:
 - a) The team to negotiate the relocation to Durban with Bombardier Transportation SA (BT).
 - b) Variation order in order to finalise the relocation of the programme for the construction of 140 locomotives to Durban to a maximum value of R634 315 000.
 - c) Letter to be issued to BT to commence negotiation for the relocation of the programme

BACKGROUND:

2. During negotiations BT and CNR were informed that they will use the Durban Transnet Engineering (TE) facility for the construction of the locomotives which were allocated to them. The Durban facility and the move were introduced to both CNR and BT after the tender had closed and evaluations were done.

BUDGET IMPLICATIONS



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23. The Board at its meeting of 28 May 2014, approved an amount of R4,9 billion in contingencies as part of the revised ETC.
24. The contingencies budget were to cover the following items:
- a) Capital spares beyond the warranty period,
 - b) Variation orders and options (such as electronically controlled pneumatic braking and wire distributed power etc.).
 - c) Relocation of the programme to TE's urban facilities.
25. The current status of the utilisation of the contingencies budget is as follows:

Description	R billion
Contingencies approved	4,954
Variation orders approved to date	1,200
Relocation of BT	634
Relocation of CNR	646
Unutilised portion of contingencies	2,484

...

RECOMMENDATION

27. Request the Group Chief Executive (GCE) to approve the following:
- a) The team to negotiate the relocation to Durban with BT.
 - b) Variation order in order to finalise the relocation of the programme for the construction of 24 locomotives to Durban to a maximum value of R634 315 000.
 - c) Letter to be issued to BT to commence negotiation for the relocation of the programme."

72.3 The decision making process in relation to relocation. See in this regard the email string between members of the executive team below:

"From: Lindiwe Mdletshe Transnet Freight Rail JHB
Sent: 23 June 2015 04:13 PM
To: Anoj Singh Corporate JHB; Thamsanqa Jiyane Engineering PTA; Garry Pita Transnet Corporate JHB; Ntshwene Silinga Transnet Corporate JHB; Yousuf Laher Transnet Freight Rail JHB
Cc: Emma Molotsane (emolotsane@tia-snk.co.za)
Subject: FW: Manufacturing Facility Relocation for Class 45D Locomotive Supply Project



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Good day,

Please find attached revised CNR proposal for your review and comments.

Please note both meetings that were scheduled to take place today, 23 June 2015 were postponed.

BT's proposal is still outstanding. They are having an alignment session this afternoon and they will revert back to us today with an indication of when the "revised proposal" will be submitted to Transnet.

...

From: Yousuf Laher Transnet Freight Rail JHB,

Sent: 25 June 2015 10:12 AM

To: Lindiwe Mdletshe Transnet Freight Rail JHB,
Lindiwe.Mdletshe@transnet.net

Cc: Emma Molotsane (emolotsane@tia-snk-co.za) Anoj Singh
Corporate JHB, Anoj.Singh@transnet.net; Thamsanqa Jiyane Transnet
Engineering PTA; Garry Pita Transnet Corporate JHB,
Garry.Pita@transnet.net; Ndiphiwe Silinga Transnet Corporate JHB,
Ndiphiwe.Silinga@transnet.net

Subject: RE: Manufacturing Facility Relocation for Class 45D
Locomotives Supply Project

Hi Lindiwe, their proposal has not changed from the previous submission except for their new offer on payment terms.

As such the comments per my email over the weekend would still apply.

..."

73 Factors that further inform these preliminary observations include, *inter alia*:

- 73.1 the initial costs of the relocation submitted by the relevant OEM is not commensurate with the amount finally approved;
- 73.2 the BEE partner of the OEM is unable to justify the relocation costs paid;
- 73.3 though there is a memorandum prepared for the Group Chief Executive to approve the relocation, no supporting documentation accompanies it;

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- 73.4 a series of meetings were held in relation to relocation but TIA was invited to only one such meeting, despite the fact that TIA was required to be part of the entire relocation process. TIA did not and presumably would not produce a report as required;
- 73.5 it is not clear that the relevant Delegation of Authority Framework was adhered to in the approval of the relocation negotiation;
- 73.6 the Cross Functional Negotiation Team attendant on the relocation have not, as far as we have been able to ascertain, been provided with requisite appointment letters;
- 73.7 there does not seem to be a negotiation strategy in place for the relocation;
- 73.8 declarati of interest of the people present in negotiations are not to hand; and
- 73.9 finance team had very limited involvement the negotiation of the relocation proposals and none of the negotiation meetings were recorded in minutes as is required by the Procurement Procedures Manual, though there are recordings of such meetings.

EXTENSION CONSIDERATIONS

- 74 The Minister of Public Enterprise has been informed regarding the inability to manage the expectations that a draft report be finalised by the end of September 2017.
- 75 It is with regret but conviction that we record that the time frames provided to produce a report as outlined herein above, were never sufficient, reasonable nor realistically possible.



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- 76 It is necessary to observe that notwithstanding the widespread interest in the issues at hand we have generally experienced a reluctance to deal with the situation. It is not a criticism but a fact that all of the required material was not volunteered and was only disclosed following specific inquiries about its apparent existence. We are required to scrutinize and interrogate each and every document with a high level of scepticism. As foreshadowed, there is still a tremendous amount of documentation outstanding thus making it impossible to make a definitive conclusion without access to all relevant evidence.
- 77 It is important to note at the outset that a report and investigation of this nature and magnitude is as good as the information provided. In the absence of unfettered and full disclosure an inference will be drawn.
- 78 Accordingly, the risks associated as to the extent and veracity of the EFF pro-forma charge sheet in so far as the allegations are concerned entails an analysis and an evaluation of the underlying transaction and the extent to which associated persons are exposed.
- 79 Business transactions when conducted in disregard of internal policy and legislative provisions must be avoided. The PFMA makes non-compliance with its provisions an act of financial misconduct. The PFMA therefore obliges Transnet to have a procurement system that espouses the principles of fairness, transparency, cost effectiveness and competitiveness, failing which National Treasury may vary or cancel contracts which undermine the abovementioned principles.
- 80 On at least two separate occasions Werksmans have notified the delegated Steering Committee, subject to Ministerial direction, to approve that the Mandate, together with that of the Professional Group be extended to the end of November 2017.



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RECOMMENDATIONS

81 Given the complexity of the matter we are of the opinion, together with the Professional Group, that arrangements be concluded to interview material witnesses. It stands to reason that to make the interviews meaningful, the requisite documentation that remains to be delivered must first be analysed.

82 In so far as the Mandate is to be extended and on the basis of these preliminary observations:

82.1 it is in our view appropriate for Transnet, in consultation with its advisors, to consider termination of the Locomotive acquisition programme or any part thereof.

82.2 in accordance with the Labour Relation legislation and the Transnet's employment terms and disciplinary code the opportunity be explored to suspend on special leave those individuals whose continued presence within the organisation may be prejudicial to the interests of furthering the investigation.

82.3 in the context of the Mandate, the matters raised are of a public concern and Transnet has determined what issues are to be investigated. We record that the purpose of the investigation as mandated must be to determine whether the Transnet's action is legally binding. We recommend that a commission of inquiry in terms of the relevant and applicable legislative provisions read with the regulations be given appropriate consideration by the Minister.

WERKSMANS INC

30 September 2017

Appendix 9

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Registration
Number
1990/000900/30

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TRANSNET



MEMORANDUM

www.transnet.net

To: Transnet Board Disposals and Acquisitions Committee

From: Mr. Brian Molefe, Group Chief Executive, SOC Ltd

Date: 17 January 2014

SUBJECT: REQUEST FOR APPROVAL TO NEGOTIATE AND AWARD OF BUSINESS TO THE SHORT LISTED TENDERERS FOR THE SUPPLY OF 599 (COCO) NEW DUAL VOLTAGE LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

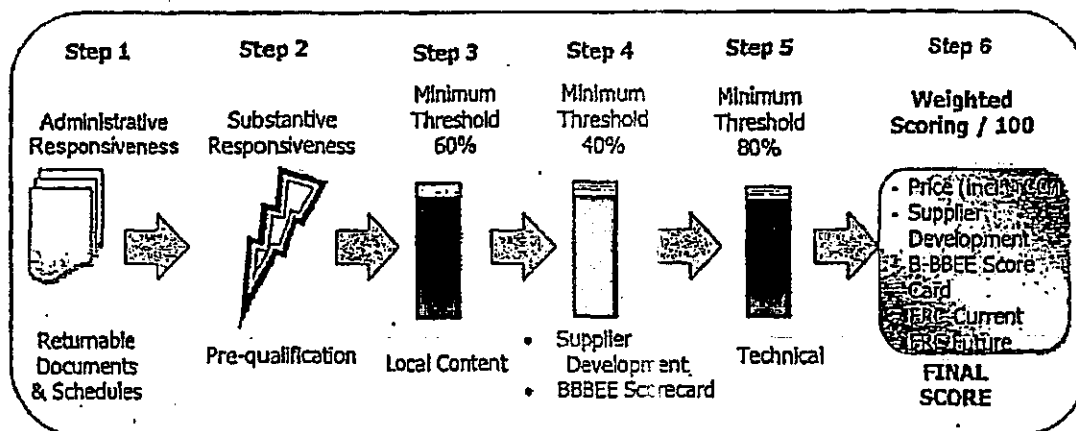
PURPOSE:

1) The purpose of this memo is to;

- Provide an update to Transnet Board Disposals and Acquisitions Committee the progress on the tender evaluation process;
- Note and recommend the approval of the tender evaluation process from step 1 up to step to the Transnet Board of Directors (BOD);
- Support the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business to BOD and
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions.

BACKGROUND:

- 2) On the 19 April 2012, the Transnet Board approved the procurement of 599 Electric locomotives subject to Section 54 PFMA approval.
- 3) Section 54 PFMA approval, from the Minister of the Department Public Enterprises was obtained by the Company and the BOD has been advised accordingly. All the queries raised by the Minister have been responded to by the Company.
- 4) The RFP document and draft contract have been reviewed internally at TFR and Group as well as by an external law firm.
- 5) RFP No TFRAC-HO-8608, for the supply of 599 New Dual Voltage Electric Locomotives for the General Freight Business (GFB) closed on the 30 April 2013. Seven (7) proposals were received from tenderers.
- 6) The BOD approved evaluation methodology was to follow a 6 step evaluation process as indicated in the diagram below:

Evaluation Methodology

7) The following evaluation criteria was used to evaluate:

7.1 Step 1— Test for Administrative Responsiveness:

- Whether the bid has been lodged on time
- Whether all returnable documents and/or schedules [where applicable] were completed and returned by the closing date and time
- Whether the bid documentation has been duly signed by the Respondent.

7.2 Step 2 – Test for Substantive Responsiveness:

- Whether the bid contains a priced offer;
- Financial Stability:**

Accordingly the following eight pre-determined ratios were used for the pre-qualification criteria for financial stability relating to the financial statements:

- Gearing
 - Liquidity
 - Profitability
 - Minimum guarantees
 - Return on Assets
 - Return on Equity
 - Interest cover
 - Cash generated from operating activities (/value)
- Guarantees:**
 - Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied;
 - Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied;
 - Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied;
 - A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period; and
 - A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the Issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.
 - Whether any other pre-qualification criteria set by Transnet, have been met;
 - Whether the bid materially complies with the scope and/or specification given and

Ben

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- f. Whether all material terms and conditions stated in the bid document have been met
- 8) Cross Functional Evaluation Team (CFET) was appointed to conduct the evaluation on behalf of the Company and this team comprised members from Technical, Finance, Legal and Supplier Development departments of Group and TFR.
- 9) A Locomotive Steering Committee (LSC) established to govern the evaluation and award process on behalf of the BOD. LSC was chaired by the GCE and its membership also comprised the GCFO; CE TFR, legal, procurement, TIA.
- 10) A sub-committee of the LSC was established to deal with the very confidential and detailed matters of the evaluation process and this committee comprised the GCE; GCFO and CE TFR.
- 11) The CFET reported its findings to this subcommittee for consideration.
- 12) All seven (7) tenderers were then evaluated according to the above criteria.
- 13) After subsequent clarifications the Cross Functional Evaluation Team (CFET) completed step 1 (Administrative Responsiveness) and step 2 (Substantive Responsiveness) on all bids received.
- 14) On completion of step 2 (Substantive Responsiveness) evaluations which included financial pre-qualification, all seven (7) tenderers met the minimum requirements and qualified to progress to step 3 (Local Content) for further evaluation;
- 15) On the 25 July 2013, Transnet Internal Auditors (TIA) reviewed step 2 (financial pre-qualifications).
- 16) On approval from the GCE (recommendation for step 1 and step 2 and to proceed with step 3 and step 4 concurrently), the CFET proceeded with step 3 (Local Content). The minimum threshold of 60% is required for tenderers to proceed to step 4 (Technical Evaluations) of the evaluations.
- 17) On completion of step 3 (Local Content) evaluations, all seven (7) tenderers met the minimum Local Content specific threshold of 60% and TIA reviewed the Local Content results.
- 18) On the 7 August 2013, the GCE approved the recommendation for step 3 (Local Content) and that the CFET start with step 5 (Technical) concurrently with step 4 (Supplier Development/ B-BBEE Scorecard).
- 19) The CFET then proceeded with the evaluation of the Supplier Development and BBBEE Scorecard of the seven (7) tenderers in the presence of TIA. The following criteria were used to evaluate step 4:

19.1 B-BBEE Scorecard:

Current status evaluated according to the valid B-BBEE Verification scorecard

19.2 Supplier Development Bid Document:

- a. Investment in Plant
- b. Technology Transfer/ Sustainability
- c. Down-stream Supplier Development
- d. Skills Development
- e. Job Creation/ Preservation
- f. Small Business Promotion

- 20) On completion of step 4 (Supplier Development and BBBEE Scorecard) evaluations, all seven (7) tenderers met the minimum Supplier Development and BBBEE Scorecard threshold of 40% and TIA reviewed the Supplier Development and BBBEE Scorecard results.
- 21) On the 18 September 2013, the GCE approved the recommendation for step 4 (Supplier Development/ B-BBEE Scorecard).
- 22) Technical team commenced with Step 5 (Technical) evaluations and the following scoring matrix was used to evaluate Step 5:
- 22.1 For each Essential or Desirable requirement, scoring was done on the following basis**
- a. Full Compliance 2
 - b. Partial Compliance 1
 - c. Non-Compliance 0
- 22.2 Mandatory requirement clauses are not scored; (Full compliance to ALL the mandatory requirements is mandatory)**
- a. Full Compliance - full compliance to all mandatory clauses
 - b. Partial Compliance - tender disqualification
 - c. Non- Compliance - tender disqualification
- 23) The office of the Chief Operating Officer of TFR made a recommendation that TFR would standardize on the Co Co locomotive configuration for TFR operations.
- 24) As this decision was not made when the tender was issued the tender called for both Co Co and Bo Bo proposal requests to be submitted.
- 25) The GCE on recommendation of the TFR CE approved the Co Co configurations for TFR operations and as consequence the tenders were then evaluated on this basis.
- 26) The CFET then proceeded with the evaluation of step 5 (Technical) of the seven (7) tenderers in the presence of TIA.

Ranking and final scores for 599 Electric Co Co locomotives

Ranking	Tender Number	Final Score
1	Tenderer 2 (T2)	96.5%
2	Tenderer 1 (T1)	95.0%
3	Tenderer 7 (T7)	95.0%
4	Tenderer 5 (T5)	92.1%
5	Tenderer 3 (T3)	89.8%

- 27) The following tenderers did not meet the technical Requirements.


Ranking	Tender Number	Final Score
6	Tenderer 4 (T4)	88.0%
7	Tenderer 6 (T6)	88.0%

- T4 did not comply with all the MANDATORY/ disqualifying clauses.
- T6 only submitted a Bo-Bo locomotive proposal and was not scored.

- 28) On completion of step 5 (Technical) TIA reviewed the results.
- 29) The GCE then approved the shortlisting of the tenderers that have met the technical threshold of 80%.
- 30) The CFET (Finance) found numerous inconsistencies in the manner in which bidders chose to complete the scheduled and unscheduled maintenance portions of the TCO model. The CFET (Finance) recommended that the CFET (Technical) review the models for reasonability with the purpose of allowing the CFET (Technical) to guide the CFET (Finance) in making decisions to score the TCO models submitted as well as to guide the CFET (Finance) in their deliberations as to whether the models submitted would actually meet the requirements to be scored fairly amongst bidders.
- 31) A few members of the technical team were made available to conduct a review of the scheduled and unscheduled maintenance regimes as supplied by bidders for reasonability. It emerged that the models required normalising and the CFET could not change the models on behalf of the tenderers.
- 32) The CFET recommended that the scheduled and unscheduled maintenance be excluded from the evaluations of the TCO model.
- 33) The GCE approved the exclusion of the scheduled and unscheduled maintenance from the evaluations of the TCO model.

DISCUSSION:

- 34) The last step of the evaluation consists of 5 elements namely:
- a. Price (Including TCO),
 - b. Supplier Development,
 - c. BBBEE Scorecard
 - d. Further Recognition Criteria Current and
 - e. Further Recognition Criteria Future



35) The results of the step 6 evaluations are summarised on the tables below:

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T5	T7
1	BBBEE SCORECARD	10.00	8.00	6.00	4.00	8.00	6.00
2	SD	20.00	15.50	16.15	15.15	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	1.28	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	44.60	52.64

MOTIVATION FOR AWARD OF BUSINESS:

36) Apart from the fact that T1 and T2 scored the highest points. Their proposals also offer the following benefit to Transnet:

- Local Content committed by both tenderers is higher than the stipulated threshold of 60%, commitment for T1 is 69.83% and Tenderer 2 commitment is 68.20%;
- T1 and T2 scored the highest points on technical evaluations.
- Supplier Development commitment for T1 is 77.5 % and T2 is 80.5%.
- Delivery Schedule is close to what Transnet requirements.

37) However the pricing of the locomotives posed a commercial exposure for Transnet and also the National Treasury concern of not paying excessive premiums as outlined in the PPPFA guidelines of premiums not being more than 11% by the use of the 90/10 evaluation criteria.

38) In order to mitigate the commercial exposure for Transnet and further reduce any potential premium on the transaction the GCE requested that the CFET request the best and final offer from the two highest scoring tenderers.

39) The other tenderers be informed that Transnet is engaging with the shortlisted tenderers.

40) The outcome of the best and final offer is as follows:

- T1 offered to increase procurement to small businesses by R50 million and technology transfer through skills development training and support by R10 million. In addition they offered a R455 000 reduction in price per locomotive based on a revised foreign currency content percentage.
- T2 offered a discount of R 2.25 million per locomotive, including a revised foreign currency content amount, thus offering the best price.

The above process has almost eliminated the premium on the transaction.

MOTIVATION FOR SPLIT OF BUSINESS AWARDED

41) The original MDS volumes as promised in the corporate plan are significantly at risk.

42) This is due to lack of tractive effort at TFR due to the delays in the award of this tender mainly due to the PPPFA issues experienced.

43) In order to not further increase this risk it is suggested that more than one supplier be used to supply the required locomotive to reduce delivery risk and enhance our ability to meet MDS volume targets.

44) We recommend that two suppliers be used to manufacture the required locomotives.

45) This view is supported by the following reasons:

- a. Promotes standardization of the locomotive fleet to ensure TCO is minimized
- b. Allows for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions
- c. Allows for critical mass that would promote localization and programmatic procurement
- d. Allows for flexibility in supplier options in future as it prevents monopoly behavior
- e. Reduces the legal risk of the transaction and
- f. Reduces the overall contract risk of the transaction due to unforeseen circumstances.

46) We further believe that the above will be achieved by a 60% allocation to T2 and a 40% allocation to T1 of the contracted locomotives.

47) This split is motivated by the following:

- a. As mentioned above delivery risk is of paramount importance due to MDS volumes.
- b. T2 has demonstrated their ability to deliver on schedule by delivering the first prototype on time and the next 10 locomotives are also on schedule. These locomotives form part of the 95 locomotive contracts.
- c. This provides comfort that T2 has the ability to deliver and reduces delivery risk.
- d. T1 has not done work for Transnet in the recent past and has no track record with Transnet.

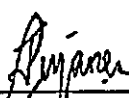
CONCLUSION

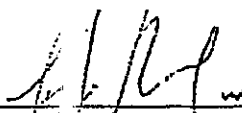
- 48) TIA has reviewed and approved all steps in the evaluation process – refer annexure A for TIA full report.
- 49) Shortlist the award of business to T1 and T2 for the supply of 599 electric locomotives subject to successful contract negotiations.
- 50) Split the award of business to the above suppliers by a 60% allocation to T2 and a 40% allocation to T1 of the contracted locomotives subject to a performance clause in the contract.

RECOMMENDATION

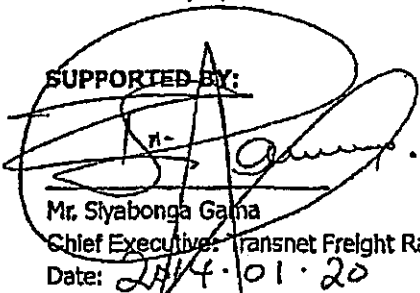
- 51) It is recommended that the Transnet Board Disposals and Acquisitions Committee to:
- Notes the update on the progress of the tender evaluation process;
 - Note and recommend the approval of the tender evaluation process from step 1 up to step 6 to the Transnet Board of Directors (BOD);
 - Support the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business as contained in paragraphs 49 and 50 to BOD and
 - Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions.

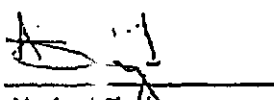
RECOMMENDED BY:


 Mr. Thamsanqa Jiyane
 Chief Procurement Officer: Transnet Freight Rail
 Date: 17/01/14

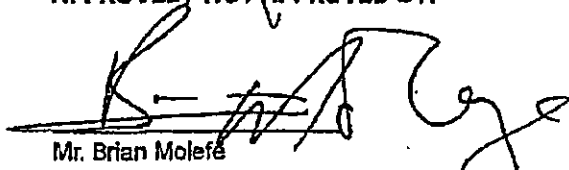

 Mr. Lucky Mabokela
 Transnet Internal Auditor
 Date:

SUPPORTED BY:


 Mr. Siyabonga Gama
 Chief Executive: Transnet Freight Rail
 Date: 20/01/20


 Mr. Anoj Singh
 Chief Financial Officer: Transnet SOC Ltd
 Date: 20/01/14

APPROVED/ NOT APPROVED BY:


 Mr. Brian Molefe
 Group Chief Executive: Transnet SOC Limited
 Date: 20.1.14

Appendix 10

217 A

Transnet SOC Ltd
Registration
number
1990/000900/30

Carlton Centre
150 Commissioner
Str, Johannesburg
2001

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TRANSNET



MEMORANDUM

www.transnet.net

To: Transnet Board Disposals and Acquisitions Committee

From: Mr. Brian Molefe, Group Chief Executive, SOC Ltd

Date: 17 January 2014

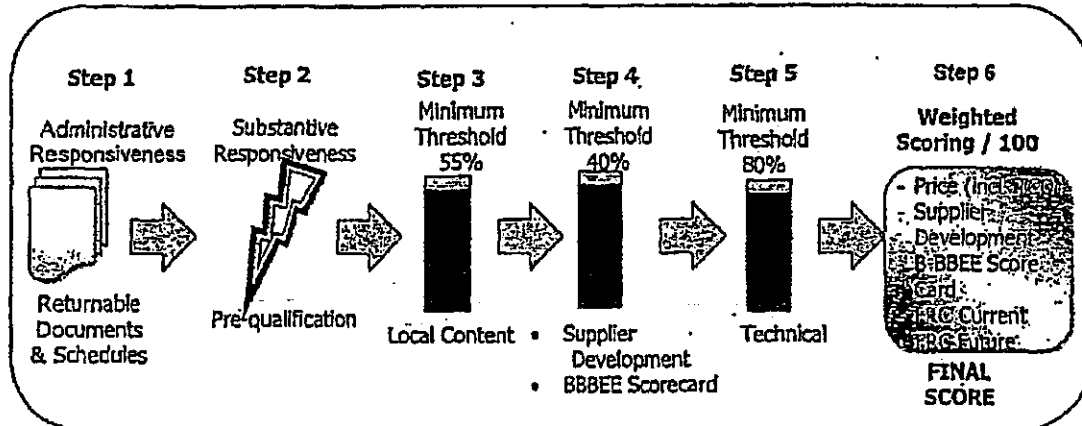
SUBJECT: REQUEST FOR APPROVAL TO NEGOTIATE AND AWARD OF BUSINESS TO THE SHORT LISTED TENDERERS FOR THE SUPPLY OF 465 NEW DIESEL LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

PURPOSE:

- 1) The purpose of this memo is to;
 - Provide an update to Transnet Board Acquisitions and Disposals Committee (BADC) on the progress on the tender evaluation process;
 - Note and recommend the approval of the tender evaluation process from step 1 up to step to the Transnet Board of Directors (BOD);
 - Support the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business to BOD and
 - Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions.

BACKGROUND:

- 2) On the 19 April 2012, the Transnet Board of Directors (BOD) approved the procurement of 465 Diesel locomotives, subject to Section 54 PFMA approval.
- 3) Section 54 PFMA approval from the Minister of the Department of Public Enterprises was obtained by the Company and the BOD has been advised accordingly. All the queries raised by the Minister have been responded to by the Company.
- 4) The RFP document and draft contract have been reviewed internally at TFR and Group as well as by an external law firm.
- 5) RFP No TFRAC-HO-8609 for the supply of 465 New Diesel Locomotives for the General Freight Business (GFB) closed on the 30 April 2013. Four (4) proposals were received from tenderers.
- 6) The BOD approved evaluation methodology was to follow a 6 step evaluation process as indicated in the diagram below;

Evaluation Methodology

7) The following evaluation criteria was used to evaluate:

7.1 Step 1– Test for Administrative Responsiveness:

- Whether the bid has been lodged on time
- Whether all returnable documents and/or schedules [where applicable] were completed and returned by the closing date and time
- Whether the bid documentation has been duly signed by the Respondent.

7.2 Step 2 – Test for Substantive Responsiveness:

- Whether the bid contains a priced offer;
- Financial Stability:
Accordingly the following eight pre-determined ratios were used for the pre-qualification criteria for financial stability relating to the financial statements:
 - Gearing
 - Liquidity
 - Profitability
 - Minimum guarantees
 - Return on Assets
 - Return on Equity
 - Interest cover
 - Cash generated from operating activities (Value)
- Guarantees:
 - Agreement to the terms & conditions of the Parent Company Guarantee in the format supplied;
 - Agreement to the terms & conditions of the Advance Payment Guarantee in the format supplied;
 - Agreement to the Performance bond requirements & Performance bond terms & conditions in the format supplied;
 - A minimum warranty period of 2 years for the loco, 6 years for the traction motor and 1 year for spares after Defects Liability Period; and

- A minimum long term credit rating of A- [Fitch Ratings or equivalent] and the issuer should be pre-agreed with Transnet, for the companies' bankers that will be providing the guarantees.
 - d. Whether any other pre-qualification criteria set by Transnet, have been met;
 - e. Whether the bid materially complies with the scope and/or specification given and
 - f. Whether all material terms and conditions stated in the bid document have been met
- 8) A Cross Functional Evaluation Team (CFET) was appointed to conduct the evaluation on behalf of the Company and this team comprised members from Technical, Finance, Legal and Supplier Development departments of Group and TFR.
- 9) A Locomotive Steering Committee (LSC) was established to govern the evaluation and award process on behalf of the BOD. LSC was chaired by the GCE and its membership also comprised the GCFO; CE TFR, legal, procurement, TIA.
- 10) A sub-committee of the LSC was established to deal with the very confidential and detailed matter of the evaluation process and this committee comprised the GCE; GCFO and CE TFR.
- 11) The CFET reported its findings to this subcommittee for consideration.
- 12) All four (4) tenderers were then evaluated according to the above criteria.
- 13) After subsequent clarifications the Cross Functional Evaluation Team (CFET) completed step 1 (Administrative Responsiveness) and step 2 (Substantive Responsiveness) on all bids received.
- 14) On completion of step 2 (Substantive Responsiveness) evaluations which included financial pre-qualification, all four (4) tenderers met the minimum requirements and qualified to progress to step 3 (Local Content) for further evaluation;
- 15) On the 25 July 2013, Transnet Internal Auditors (TIA) reviewed step 2 (financial pre-qualifications) and signed off on the process.
- 16) On approval from the GCE (recommendation for step 1 and step 2 and to proceed with step 3 and step 4 concurrently), the CFET proceeded with step 3 (Local Content). The minimum threshold of 55% is required for tenderers to proceed to step 4 (Technical Evaluations) of the evaluations.
- 17) On completion of step 3 (Local Content) evaluations, all four (4) tenderers met the minimum Local Content specific threshold of 55%.
- 18) TIA reviewed the Local Content results and signed off on the process.
- 19) On the 7 August 2013, the GCE approved the recommendation for step 3 (Local Content) and that the CFET start with step 5 (Technical) concurrently with step 4 (Supplier Development/ B-BBEE Scorecard).
- 20) The CFET then proceeded with the evaluations for Supplier Development and BBBEE Scorecard of the four (4) tenderers in the presence of TIA. The following criteria were used to evaluate step 4:



20.1 B-BBEE Scorecard:

Current status evaluated according to the valid B-BBEE Verification scorecard

20.2 Supplier Development Bid Document:

- a. Investment in Plant
- b. Technology Transfer/ Sustainability
- c. Down-stream Supplier Development
- d. Skills Development
- e. Job Creation/ Preservation
- f. Small Business Promotion

21) On completion of step 4 (Supplier Development and BBBEE Scorecard) evaluations, all four (4) tenderers met the minimum Supplier Development and BBBEE Scorecard threshold of 40% and TIA reviewed the Supplier Development and BBBEE Scorecard results.

22) On the 19 August 2013, the GCE approved the recommendation for step 4 (Supplier Development/ B-BBEE Scorecard).

23) On the 22 August 2013 the Technical team commenced with Step 5 (Technical) evaluations and the following scoring matrix was used to evaluate Step 5:

20.3 For each Essential or Desirable requirement, scoring was done on the following basis

- a. Full Compliance . 2
- b. Partial Compliance 1
- c. Non-Compliance 0

23.2 Mandatory requirement clauses are not scored; (Full compliance to ALL the mandatory requirements is mandatory)

- a. Full Compliance - full compliance to all mandatory clauses is mandatory.
- b. Partial Compliance - tender disqualification
- c. Non- Compliance - tender disqualification

24) The CFET then proceeded with the evaluation of step 5 (Technical) of the four (4) tenderers in the presence of TIA.

Ranking and final scores for 465 Diesel Co-Co Locomotives Ranking

Ranking	Tender Number	Final Score
1	Tenderer 2 (T2)	95.67%
2	Tenderer 1 (T1)	92.39%
3	Tenderer 3 (T3)	86.72%
4	Tenderer 4 (T4)	86.19%

- 25) All tenderers met the minimum threshold of 80% and complied with all the MANDATORY requirements in specification.
- 26) On completion of step 5 (Technical) TIA reviewed the results.
- 27) On the 04 November 2013, the GCE then approved the shortlisting of the tenderers that have met the technical threshold of 80%.
- 28) The last step of the evaluation consists of 5 elements namely:
- a. Price (including TCO),
 - b. Supplier Development,
 - c. BBBEE Scorecard
 - d. Further Recognition Criteria Current and
 - e. Further Recognition Criteria Future
- 29) The CFET (Finance) found numerous inconsistencies in the manner in which bidders chose to complete the scheduled and unscheduled maintenance portions of the TCO model. The CFET (Finance) recommended that the CFET (Technical) review the models for reasonability with the purpose of allowing the CFET (Technical) to guide the CFET (Finance) in making decisions to score the TCO models submitted as well as to guide the CFET (Finance) in their deliberations as to whether the models submitted would actually meet the requirements to be scored fairly amongst bidders.
- 30) Members of the technical team were made available to conduct a review of the scheduled and unscheduled maintenance regimes as supplied by bidders for reasonability. It emerged that the models required normalising and the CFET could not change the models on behalf of the bidders.
- 31) The CFET recommended that the scheduled and unscheduled maintenance be excluded from the evaluations of the TCO model.
- 32) The GCE approved the exclusion of the scheduled and unscheduled maintenance from the evaluations of the TCO model.



33) The results of the step 3 evaluations before the best and final offer are summarised on the table below:-

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T4
1	BBBEE SCORECARD	10.00	5.00	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	17.48	16.65	13.35	37.13
	TOTAL SCORE	100.00	38.75	34.12	40.93	62.76

DISCUSSION:

- 34) The above results were recommended by the CFET to the subcommittee however, the subcommittee raised concerns regarding the pricing of the bids received. There was a concern with the outcomes on the table above as the price for the second highest scoring tender was more than 10% higher than that of the lowest technically acceptable price.
- 35) This was a concern to the subcommittee due to the commercial exposure for Transnet that this may potentially represent and also the National Treasury concern of not paying excessive premiums as outlined in the PPPFA guidelines of premiums not being more than 11% by the use of the 90/10 evaluation criteria.
- 36) The CFET was requested to investigate the reasons for the above concerns and following further clarifications from tenders concluded that the base price of locomotives were too high.
- 37) The GCE approved a decision that all the tenderers must be requested to submit a best and final commercial offer to see if the above concerns will be mitigated.
- 38) The above decision was made after consultation with the Chairman of the BOD; Chairman of BADC and TIA.
- 39) The request for the best and final commercial offer provided a better outcome as all the tenderers submitted better prices and the price differences are less than 13% before negotiations and the CFET is confident that the price after negotiations will be within the allowed premium.

40) The final results of the step 6 evaluations after the best and final offer are summarised on the table below :-

	WHAT IS BEING MEASURED	WEIGHT	T1	T2	T3	T4
1	BBBEE SCORECARD	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

MOTIVATION FOR AWARD OF BUSINESS

41) Apart from the fact that T4 and T1 scored the highest points. Their proposals also offer the following benefits to Transnet:

- Local Content both tenderers committed higher than in requirement, commitment for T1 is 61.13% and T4 commitment is 55.55% against a stipulated threshold of 55%;
- T1 scored 92.9% technical evaluations compared to the stipulated 80%.
- Supplier Development commitment for T1 is 66.15% and T4 commitment is 66.7% against a threshold of 40%;
- T4 proposed the best delivery schedule of all the tenderers;
- T1 and T4 provided the best TCO in terms of the elements which were considered at the end.
- While the scoring for T1 and T3 seems very close the price for T3 is 32% higher than price offered by T1.

MOTIVATION FOR SPLIT OF BUSINESS AWARDED

42) The original MDS volumes as promised in the corporate plan are significantly at risk due to lack of tractive effort at TFR.

43) This is due to the delays in the award of this tender mainly due to the PPPFA issues experienced.

44) In order to not further increase this risk it is suggested that more than one supplier be used to supply the required locomotive to reduce delivery risk and enhance our ability to meet MDS volume targets.

45) We recommend that two supplier be used to manufacture the required locomotives.

46) This view is supported by the following reasons:

- a. Promotes standardization of the locomotive fleet to ensure TCO is minimized
- b. Allows for critical mass that would enable successful negotiations on price and other critical commercial terms and conditions
- c. Allows for critical mass that would promote localization and programmatic procurement
- d. Allows for flexibility in supplier options in future as it prevents monopoly behavior
- e. Reduces the legal risk of the transaction and
- f. Reduces the overall contract risk of the transaction due failure by any supplier to fulfill its contractual obligations.

47) We further believe that that above will be achieved by a 50/50 split of the contracted locomotives.

48) This split is motivated by the following reasons:

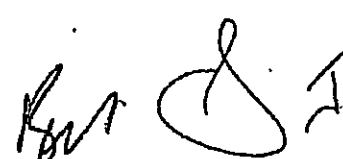
- a. There is a growing risk of very high dependency on T4 due to previous locomotive transactions.
- b. This may lead to and promotion of monopolistic environment and will reduce Transnet's ability to mitigate TCO over the long term.
- c. Allocating 50% to T1 will allow this risk to be mitigated.
- d. Also will promote localization and SD as there will be critical mass for T1
- e. Delivery risk on T1 will be mitigated as T4 has demonstrated in the past to delivery ahead of schedule.

CONCLUSION

49) TIA has reviewed and approved all steps in the evaluation process – refer annexure A for their full TIA report.

50) Shortlist the award of business to T4 and T1 for the supply of 465 diesel locomotives subject to successful contract negotiations.

51) Split the award of business to the above suppliers on a 50% (T4) and 50% (T1) basis subject to performance clause in contract.




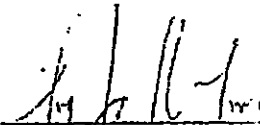
RECOMMENDATION

52) It is recommended that the Board Disposals and Acquisitions Committee:

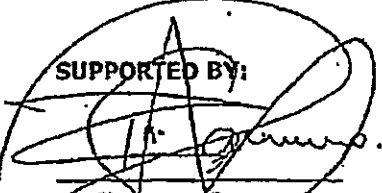
- Notes the update on the progress on the tender evaluation process;
- Note and recommend the approval of the tender evaluation process from step 1 up to 6 step to the Transnet Board of Directors (BOD);
- Support the recommendation of the shortlist of tenderers as a result of the tender and evaluation process for the negotiations and award of business as contained in paragraphs 50 and 51 to BOD and
- Delegate all necessary powers to the Group Chief Executive to sign, approve and conclude all necessary documents to give effect to the above resolutions.

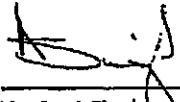
RECOMMENDED BY:


 Mr. Thamsanqa Jiyane
 Chief Procurement Officer: Transnet Freight Rail
 Date: 17/01/14

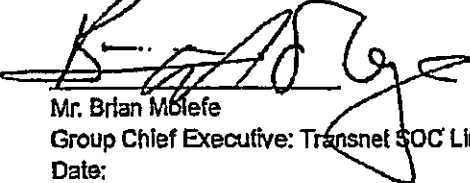

 Mr. Lucky Mabokela
 Transnet Internal Auditor
 Date: 20/01/2014

SUPPORTED BY:


 Mr. Siyabonga Gama
 Chief Executive: Transnet Freight Rail
 Date: 20/01/2014


 Mr. Anoj Singh
 Chief Financial Officer: Transnet SOC Ltd
 Date: 20/01/14

APPROVED/ NOT APPROVED BY:


 Mr. Brian Molefe
 Group Chief Executive: Transnet SOC Limited
 Date:

Appendix 11

226

EXCERPT FROM THE MINUTES OF THE SPECIAL BOARD OF DIRECTORS OF TRANSNET SOC LTD
MEETING NO. 14/1 HELD ON 24 JANUARY 2014 AT 16:10 IN BOARD ROOM 4901, 49TH FLOOR,
CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

4.2 Acquisition of 599 Electric Locomotives

RESOLVED that the Board:

- Approved the tender evaluation process.
- The acquisition of 599 Electric Locomotives estimated at R11.8bn (excluding hedging costs, escalations and scope of TE's work).
- Approved the recommendation of the *Bidder T1* and *Bidder T2* as a result of the evaluation process for the negotiations and award of business, subject a further endorsement by the Board Acquisitions and Disposals Committee post the negotiation process.
- Approved the allocation on a 60% - 40% basis; 60% to *Bidder T2* and 40% to *Bidder T1*, subject to a performance clause in the contract.
- Delegated authority to the GCE to sign, approve and conclude all necessary documents to give effect to the resolution.

14/1/2"

Appendix 12

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EXCERPT FROM THE DRAFT MINUTES OF THE BOARD OF DIRECTORS OF TRANSNET SOC LTD
MEETING NO. 14/3 HELD ON 28 MAY 2014 AT 09:15 IN BOARDROOM 4901, CARLTON CENTRE
OFFICE TOWERS, 150 COMMISSIONER STREET, JOHANNESBURG

"6.16 1064 Locomotives: Increase in ETC to R54.5bn

RESOLVED that the Board noted the reason for the increase in ETC, and approved an increase in the Estimated Total Cost for the acquisition of the 1064 Locomotives for the General Freight Business from R38.6bn to R54.5bn.

14/3/29"

Appendix 13

228

Linda Mabaso, Chairperson

TRANSNET



Our Ref No: LM/18192

Mr Nhlanhla Nene, MP
Minister of Finance
Private Bag X115
PRETORIA
0001

Fax: 012 315 5126

Dear Minister Nene

**Ref M4/1/20 (921/14): TRANSNET'S ACQUISITION OF 100 DUAL VOLTAGE
LOCOMOTIVES FOR THE EXPORT COAL LINE**

Your letter with the above reference dated 29 September 2014 was received by Transnet and Transnet welcomes your correspondence in relation to the above transaction.

This letter seeks to respond to the queries raised in your letter and provide some level of assurance that the thinking applied before entering into the transaction to acquire the locomotives is in accordance with the highest level of governance. It should be noted that the acquisition is fully aligned to the strategic direction of the Company as the investment is included in the Market Demand Strategy arising from a business need.

'1. Comprehensive analysis of five procurement options considered...'

Delays were experienced in the tender process for the acquisition of the 1064 locomotives due to the following:

- Aggressive timelines built into the tender, resulted in requests for extensions and clarifications.
- Process to obtain PPPFA exemption was lengthy and complicated
- Evaluation basis could only be made available to bidders after exemption from PPPFA was obtained
- Evaluation of bids could only commence after PPPFA exemption was obtained
- The extensions and clarifications requested above had to be adequately addressed with timeline extensions granted as a challenge to the award would impact award of the contract
- Transnet's appetite for a legal risk and challenge of the award is minimal given the tractive capacity requirements, we believe that the extended tender process mitigates the legal and challenge of award risk.

The business need was first established which basically looked at the situation with the tender process for the acquisition of 1064 locomotives for Freight Rail's General Freight Business (GFB). GFB volumes were at risk and the main reason for this was a shortfall in tractive capacity. The fastest way to bring tractive capacity into the system given the constraints in GFB is to accelerate the acquisition of locomotives planned for the Coal Line.

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Directors: ME Mkwandisi (Chairperson) B Molefe* (Group Chief Executive) MA Fanucchi Y Forbe: HD Gazendam NP Mvoseni N Moola IM Sharma IB Skosana
E Tshabalala DJ Tshope A Singh* (Group Chief Financial Officer)
*Executive

www.transnet.net

Group Company Secretary: ANC Ceba



This would free up existing locomotives on the Coal Line to service the GFB sector as an interim measure until the 1064 contracts commence delivery. The cascaded locomotives from the Coal Line will then be retired as the locomotives from the contracts of the 1064 are brought into service. The 100 locomotives for the Coal Line are part of the fleet plan and 7 year capital investment plan and were being accelerated, it is not an addition to the fleet plan but an acceleration of the investment.

The critical issue in this instance was one of timing, basically fast tracking the introduction of tractive capacity to mitigate against MDS volume risk in the short to medium term.

The 1064 locomotive tender process was conducted at the same time, indicating that Transnet had the benefit of recent submissions from suppliers for purposes of comparison and improving our negotiating position.

There have been no objections or challenges raised to date thus no risk pertaining to commencement of production of the locomotives as all suppliers have accepted the decision.

With timing being of crucial importance, the options considered were carefully explored, however once a particular option was explored and proven to be unviable to address the above crucial need, it was discarded without any further analytics being performed.

- Do nothing: This would clearly not address the business needs as volume risk would still exist.
- Go out on open tender: This approach would take considerable time to execute just the tender process. The objective of bringing tractive power on as soon as possible to mitigate short to medium term MDS volume risk would not be met. This option was thus discarded due to the timeline constraint.
- Extend current 20E contract for the 95 locomotive acquisition: The major reason for not extending the 95 contract is that the locomotives for the Coal Line are of a different specification. Locomotive specification is a key component of any locomotive manufacturing contract. Changing specifications on an existing contract will create significant complications and potentially a contract on which the terms and conditions are not enforceable. The process followed for this acquisition was an open tender process and extending the current contract would result in a material amendment such that we may need to go out on tender again as losing bidders could challenge that their bids would have been different had they known about the final quantum of locomotives and possibly resulted in them winning the tender.
- Leasing: The option to lease locomotives was explored. The locomotives to be leased are small in quantity and 30 years old and would not address business need. The impact of leasing the locomotives will be minimal.
- Confinement to China South Rail (CSR) which is the chosen option was embarked upon due to the following:
 - Urgency of the process to acquire locomotives to satisfy tractive power requirements
 - Locomotives are known as CSR are currently manufacturing the 95 locomotive contract which is progressing well from a quality and reliability perspective.
 - CSR have produced the fastest prototype and delivery of the first locomotive within 6 months of completing the design freeze.
 - CSR has production facilities in China that can produce 2000 locomotives per

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annum and can produce locomotives with immediate effect. With the 95 locomotives currently being built by CSR, they have the learning curve benefits in terms of the production process.

- o CSR is a known supplier of locomotives and they have performed well on the last two tenders for electric locomotives (95 and 599/1064) in terms of:
 - Technical capability
 - Capacity to deliver the required product
 - Supplier development
 - Commercial and
 - Transformation
- o Confinement to CSR meets the criteria for confinement as set out by the Board of Directors.

'2. Detailed evidence on how the confinement method was selected as the preferred option'

There are basically two approval hurdles for confining a procurement event:

1. In terms of the Delegations of Authority, confinement of Tenders to a value exceeding R1 billion may only be approved by the Transnet Board of Directors
2. In terms of the PPM, confinement of tenders may only be approved under the following circumstances:
 - a. Where a genuine unforeseeable urgency has arisen. Such urgency should not be attributable to a lack of planning, however where an urgency has arisen due to a lack of planning, urgency can be relied upon as grounds for confinement. In such cases action must be taken against individual(s) responsible for the bad planning.
 - b. The goods/services are obtainable from one or limited 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 compatibility and standardisation of existing goods and services. A case must be made that deviation from existing standardised goods and services will cause major disruption. If not, confinements based on standardisation will not be considered.
 - d. When 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 organisation 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:
 - i. The goods or services must be highly specialized
 - ii. Almost identical to previous work done and
 - iii. Approaching the market again would result in wasted money and time



With the above framework in place the conditions applicable for the transaction to meet the criteria for confinement is detailed as follows:

Paragraph (a) is applicable in this instance as a genuine unforeseeable urgency has arisen. The timelines for the tender process for the acquisition of 1064 locomotives were not realistic. Certain delays were encountered which resulted in timelines moving out. These delays include:

- Development of the business case to obtain first time approval from all approval gates (Transnet Exco, Board Acquisitions and Disposals Committee, Board of Directors and Shareholder Minister).
- The tender for the locomotives is large and complicated and with aggressive timelines built into the tender there were requests for extensions and clarifications.
- The process to obtain PPPFA exemption was lengthy and complicated and:
 - Bids could only be evaluated after obtaining PPPFA exemption
 - The evaluation basis could only be made available to bidders after PPPFA exemption was obtained.
- The extensions and clarifications mentioned above would have to be adequately addressed with timeline extensions granted as a challenge to the award would impact the award of the contract.

As evidenced above the delay experienced on the 1064 tender process is not attributable to poor planning by an individual or group of individuals.

Complementing "ground (a) – urgency" for confining a tender are grounds (b) – limited number of suppliers, (c) – standardisation and (d) goods are largely identical to those previously executed.

- (b) Locomotives are highly specialized with only a few suppliers worldwide.
- (c) There are currently 21 different locomotive models in the fleet. This places unnecessary operational complexities and cost burdens in terms of driver deployment and utilisation, spares holding, strategic spares holding and maintenance facilities and practices. The locomotives are largely the same as currently being procured on the acquisition of 95 locomotives contract, a significant level of standardisation can be achieved through confinement.
- (d) Locomotives by their nature are highly specialized and the 100 Coal Line locomotives are essentially similar to those already being acquired (95 locomotives). In addition, Transnet would incur wasted time and money in approaching the market due to the following:
 - CSR has been identified as the best bidder during the open tender process to appoint a contractor for manufacture of the 95 locomotives
 - Both these tenders (95 and 100) include Board approved procurement methodology for maximizing supplier development, whilst ensuring the highest quality standards and commercial offering.
 - Transnet has recently invested a large amount of time, human capital and money in evaluating the tenders and going through another tender process would not be efficient given the urgency required from a traction capacity perspective.
 - The Mitsui contract which has been recently completed was embarked on

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- when criteria such as supplier development were not a key focus area. As a result Mitsui did not fare well in the most recent tenders issued by Transnet.
- o Confining the contract to Mitsui would result in them having a monopoly for the supply of locomotives to the Coal Line. Transnet found this concentration risk unacceptable as the downstream impact in terms of cost of spares, strategic spares and tooling would place Transnet in a vulnerable position.

The decision to confine has been justified through paragraph (a) of the grounds for confinement contained in the PPM, however the table below provides a high-level summary of the other grounds that further enhance the decision to confine:

Ground	(a)	(b)	(c)	(d)	✓
	✓	✓	✓	(i)	✓
				(ii)	✓
				(iii)	✓

'3. Details of Transnet's current contract with CSR with emphasis on compliance with legislative requirements'

The PPPFA was followed and the 90/10 rule applied.

Supplier development commitments contained in the contract currently in production (95 electric locomotives for GFB) are as follows:

Category	Amount
Total	R1787m (65% contract value)
Actual to March 2014	R441m
Broken down as follows:	
Localisation	R163,4m
Skills Development	R46,9m
Investment Plan	R92,0m
Industrialisation	R136,2m
Small Business	R0,1m
Rural Development	R2,6m

'4. Risk Management plan to mitigate against all possible risks that may derail the project'

The acquisition of 100 locomotives is in itself a risk mitigation plan against the interim volume shortfall of the MDS over the next two years due to delayed delivery on the 1064 locomotive acquisition. A risk mitigation plan has been developed for the acquisition of 1064 locomotives for GFB. This plan was developed with the entire locomotive acquisition programme in mind which includes:

- 95 GFB electric locomotives,
- 1064 GFB locomotives,



- 100 Coal Line electric locomotives and
- 60 GE diesel locomotives.

The risk mitigation plan developed for the 1064 locomotives is thus applicable to the 100 Coal Line locomotives and is the worst case scenario eg. All risks have been rated as Level 1 (highest priority, red, considered by Board and Exco and action plans are to be developed and effected within 6 months of the risk being identified), however rail Infrastructure risk on the Coal Line is not high as the GFB network. The risk plan at a high level covers the following risks:

1. Delivery delay
2. Rail Infrastructure
3. Energy supply
4. Market
5. Customer
6. Operational readiness
7. Financial
8. Production
9. Infrastructure
10. Logistical
11. Human capital
12. Technology
13. Material
14. Security
15. Compliance
16. Project management
17. Safety, health and environment
18. Quality management

As is evident from the above list, a comprehensive plan was developed and is attached as Annexure A.

Engagement workshops were held with the DPE together with National Treasury on the PFMA application to acquire 100 Locomotives for the Coal Line. A summary of the notes is provided (Annexure B) for your ease of reference. The notes were circulated in response to queries raised by the Minister in the letter of approval of the investment. It was unfortunately not copied to the National Treasury.

"Informed decision to be reached regarding the acquisition of the locomotives"

The request to acquire the locomotives was approved by the Minister of Public Enterprises on 23 May 2014. Approval letter from the Minister of Public Enterprises attached as Annexure C.

Kindly note that in November 2011 a request in terms of the PFMA was mistakenly made to both the DPE and National Treasury, Transnet were duly informed that approval of the

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Investment is not part of the National Treasury's responsibility (letter from the Minister of Finance attached as Annexure D) but that of the Shareholder Minister. This is a correct interpretation of the PFMA and National Treasury is required to be informed of the transaction. This has been Transnet's approach since (request approval from the DPE and notify National Treasury).

In the interests of information sharing and integration, both the DPE and National Treasury representatives are invited to all engagements relating to section 54 PFMA applications and quarterly reporting on progress of the infrastructure rollout plan. These joint engagements have been working well with good cooperation between the various Departments and Transnet.

The acquisition of the 100 locomotives for the Coal Line has been accelerated. Delivery of the 100 Coal Line locomotives has commenced with 14 locomotives having been delivered by mid- February 2015. These locomotives are in various phases of testing at the OEM's and TFR's premises.

I trust that the response provided together with annexures gives you an acceptable level of assurance that the transaction entered into subscribes to the highest standards of governance and complies with all legislative requirements.

Please do not hesitate to contact my office should you require further clarity on any matter relating to the acquisition of 100 locomotives for the Coal Line.

Kind regards

Linda Mabaso

Chairperson

Date: 31/03/2015

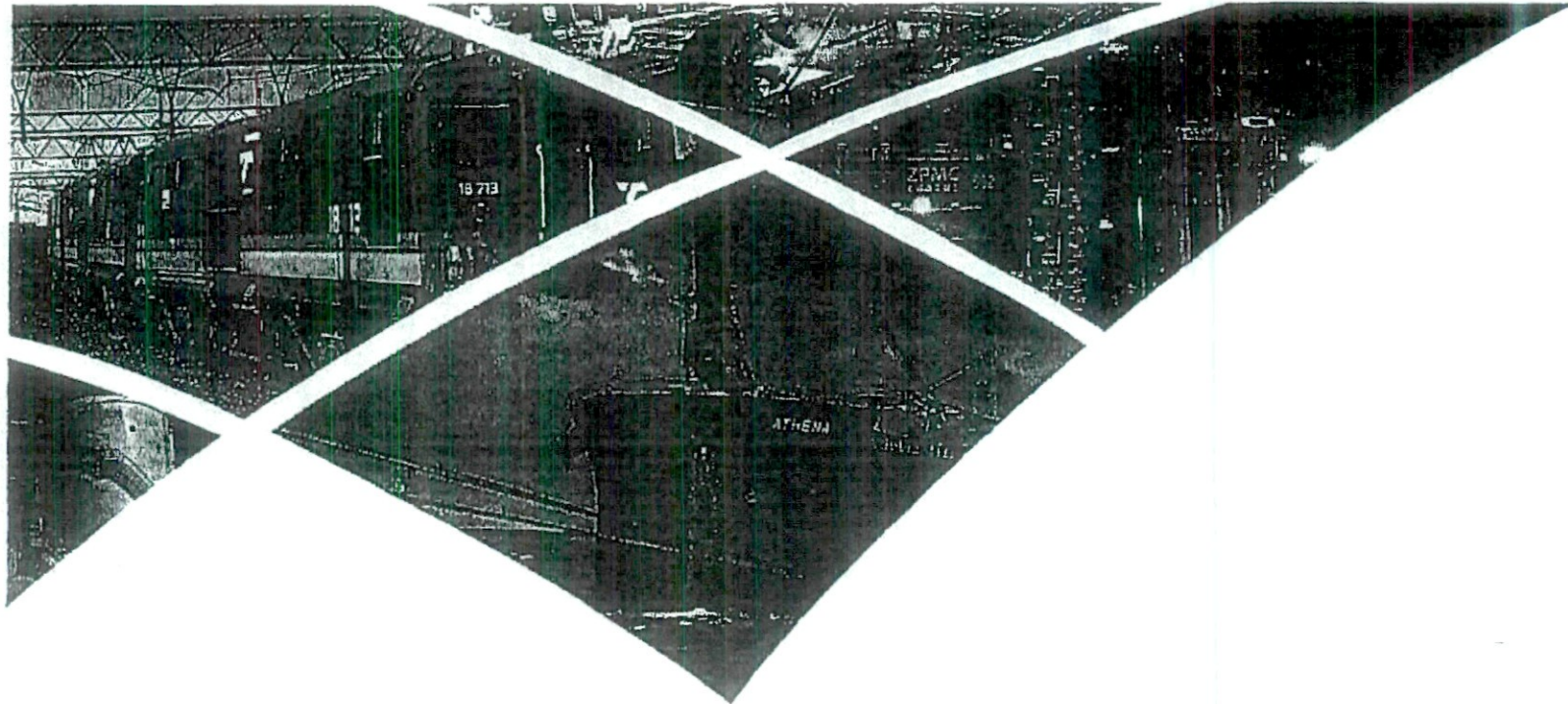
CC: Ms L Brown, MP
Minister of Public Enterprises

Annexure A

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delivering freight reliably



**Acquisition of 1064 locomotives for
TFR's General Freight Business: Risk Management Plan**

19 September 2014



Background – Accelerated Loco Delivery and Associated Business Impacts



Risk Assessment Context

During the workshops the following principles were considered:

- The assessment was limited to the identification of the locomotive delivery risks and mitigation strategies.
- The relationship between rail infrastructure and rolling stock was considered in the risk assessments.
- Issues relating to Opex/Capex affordability were considered.
- TE is part responsible (as sub-contractor) for the building of the locomotives and contracting with the OEM (as lead). The contractual relationship for the delivery of the locomotives is therefore between TFR and the OEM.
- TE, in the capacity as landlord, is providing the production facilities to the various OEMs.
- Customers are not investing at the same rate as anticipated, which could lead to delayed benefit realisation.
- Order of magnitude of delivering the 1064 locomotives and the organisational change needed should not be underestimated.

Risk Excluded from the Assessment

Post-productions risks such as maintenance, redundant equipment and production facilities, were not included in the assessment.

Risk Rating

It was an unanimous decision that all risks should be treated as Level 1 risks and be treated as stipulated in the Transnet ERM Methodology.



Business Risks: Level 1

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Risk	Risk Description	Mitigating actions
Loco Delivery Delay Risk	<ul style="list-style-type: none"> ▪ OEM's / Sub-contractors unable to meet contract delivery commitment ▪ Capacity and capability constraints 	<ul style="list-style-type: none"> ▪ OEMs and subcontractors to finalise the subcontractors agreement ▪ Locomotive governance steering committee to provide oversight on the adherence to delivery milestones ▪ Continuous engagement between OEMs and TFR regarding delivery progress ▪ Suppliers/ subcontractors to escalate issues relating to late delivery immediately to TFR ▪ Vigorous contract management ▪ Should locomotive delivery be delayed, subsequent run-out of the old fleet will also be delayed (increased maintenance costs and possible locomotive failures) ▪ Structured quality inspection programme to be undertaken by TFR
Rail Infrastructure Risk	<ul style="list-style-type: none"> ▪ New locomotives will be traversing fatigued rail infrastructure ▪ Infrastructure failure remain/deteriorates which will lead to operational disruptions ▪ Affordability of Capex, Copex and Opex ▪ RSR technical standards threatens TFR licencing conditions and penalties 	<ul style="list-style-type: none"> ▪ Continuation and Improvement of rail network Capex, Opex and sustaining Capex programmes ▪ Achieve of "A" standard network to match locomotive requirements (as dictated by the RSR) ▪ Submission of business case to Capic (Nov 2014) to ensure "A" standard rail infrastructure ▪ Selective investment based on high yield commodity corridors ▪ Developing scenarios to consider various affordability options
Energy Supply Risk	<ul style="list-style-type: none"> ▪ Inherent risk of Eskom power interruptions impacting tonnage delivery 	<ul style="list-style-type: none"> ▪ Explore alternative power generation initiatives (medium to long term option)



Business Risks: Level 1

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Risk	Risk Description	Mitigating actions
Market Risk	<ul style="list-style-type: none"> Customer readiness for rail Low economic growth/ contraction Volatile / uncertain demand from Eskom Fluctuating mining commodities' pricing impacting demand – also from Botswana 	<ul style="list-style-type: none"> Aggressive marketing of TFR's product offerings Annual volume validation with customers Written commitment and confirmation from customers Implementation of take or pay contracts for Mega Rail customers Explore contractual alternatives to limit the risk exposure of investments made for customers who do not meet volume commitments Implementation of aggressive New Road to Rail strategy and opportunities identification
Customer Risk	<ul style="list-style-type: none"> Total logistics chain, address customers' ability to deal with increased freight – siding and loading equipment / facilities 	<ul style="list-style-type: none"> Identification of key customer constraints Customer engagement to explore solutions to effectively address loading and offloading facilities availability and reliability
Operational readiness risk	<ul style="list-style-type: none"> TCP, TE, TPT and Rail Network capacity to execute projects supporting the locomotive deployment. Acceptance testing readiness Driver training and readiness Infrastructure material supply & transport – transporting long rails Material availability – e.g. supply of rail, ballast, sleepers etc. 	<ul style="list-style-type: none"> Integrated capital project planning between TCP, TE, TPT and Rail Network to ensure alignment across the value chain Operational readiness plans have been effected in preparation for the locomotive deployment (e.g. training of train drivers and maintenance staff; acquisition of upfront spares, tools and facilities) Orders for the procurement of railway material done a year in advance. Locomotive execution strategy - four tier governance structure (Executive Sponsor, Steering committee, Locomotive Owners team, Programme Director) Establishment of a Programme Management Office

Business Risks: Level 1

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Risk	Risk Description	Mitigating actions
Financial Risks	<ul style="list-style-type: none"> Non-payment or delays in payment to TE by the appointed OEMs Termination of the contract by OEM's Increase in the Project Input Cost (energy, electricity, security, steel and etc.) Corruption, fraud and other forms of criminality 	<ul style="list-style-type: none"> Existing Finance procedures and processes Project Steering Committee Regular project meetings Daily production meetings In-line/hold point inspections for detecting defects earlier Energy saving initiatives Ongoing review of security measures Fraud risk strategy Systems controls – Procurement and Finance
Production Risk	<ul style="list-style-type: none"> Inability to ensure a timeous manufacturing of the required Locomotives as scheduled 	<ul style="list-style-type: none"> Project plan Daily production meetings aimed at tracking progress Adequate Human Resource Allocation Financial Commitment
Infrastructure Risks	<ul style="list-style-type: none"> Energy supply - load shedding Inadequate machinery and equipment capacity to ensure successful completion of the project Delay in the establishment/purchase of the required Facilities/Equipment for the project 	<ul style="list-style-type: none"> Electricity backup systems (e.g. generators) Maintenance plans across TE operations Prioritisation of Capex list In-house modifications Capex approval processes
Logistical Risks	<ul style="list-style-type: none"> Logistical and warehousing constraints Shipment and transportation logistics constrain Non conforming material for components and reverse logistics 	<ul style="list-style-type: none"> Logistics Management Strategy for 1064 Dedicated logistics human resources Dedicated warehouse for 1064 scope Inspection of material on arrival Project Steering Committee

Information provided by TE





Business Risks Level 1

Risk	Risk Description	Mitigating actions
Human Capital Risks	<ul style="list-style-type: none"> ▪ Insufficient human capacity to meet the production and maintenance demand (competing national rail projects) ▪ Limited technical human capacity from OEM ▪ Industrial action ▪ Incompatible working practices between TE and OEM's 	<ul style="list-style-type: none"> ▪ Feeder channel of apprenticeships ▪ Usage of experienced planners ▪ Making use of fixed term contractors ▪ Training agreements with OEMs ▪ Strike management committee ▪ Change Management Strategy (e.g. communication strategy)
Technology Risks	<ul style="list-style-type: none"> ▪ Technological challenges - none or ineffective involvement of TE in the technology discussions and conclusions between the appointed OEMs and TFR ▪ Lack of TE's knowledge on the proposed system and the infrastructure requirements ▪ Systems incompatibility (Oracle vs SAP) ▪ MRP and OEMP Integration 	<ul style="list-style-type: none"> ▪ Drawing and design freeze ▪ More controls to be developed to manage the risk ▪ Existing ICT Processes and Procedures
Materials Risks	<ul style="list-style-type: none"> ▪ Ineffective Bill Of Material (BOM) Change Control ▪ Delays in finalisation of the design freeze ▪ Material delay and unavailability (due to non-availability and accuracy of BOM) ▪ Ineffective management of the existing suppliers ▪ Third Party Performance Risks - dependency on the performance of a third party 	<ul style="list-style-type: none"> ▪ Timorous placement of Purchase Orders ▪ Weekly localisation meetings ▪ Usage of developed suppliers ▪ Institute penalties for non-delivery ▪ Change control (TE and OEMs) ▪ Contracts with service level agreements ▪ Non-conformance procedures (for third party service providers) ▪ Daily tracking of progress within TE

Information provided by TE



Business Risks: Level 1

Risk	Risk Description	Mitigating actions
Security Risks	<ul style="list-style-type: none"> ▪ Ineffective Security Management ▪ Theft of the OEMs' IPs 	<ul style="list-style-type: none"> ▪ Existing Security Plan and Procedures in place ▪ SHE Induction ▪ Usage of different Bays and Centres for each OEM ▪ Existing ICT security measures in place
Compliance Risks	<ul style="list-style-type: none"> ▪ Not meeting Supply Development and Localisation targets ▪ Ineffective document management 	<ul style="list-style-type: none"> ▪ Regular Project Meeting ▪ Contract between TE and OEMs ▪ Supply Development Strategy ▪ Supply Development Summit
Project Management Risk	<ul style="list-style-type: none"> ▪ Ineffective Project Management of the 1064 scope of work 	<ul style="list-style-type: none"> ▪ Daily Project Meetings ▪ Regular Project Meeting ▪ Project Steering Committee ▪ Appointed Project Coordinator at the GM's Level
SHE Risks	<ul style="list-style-type: none"> ▪ Increase in Injuries/fatalities and disabilities ▪ Non compliance to contractor SHE requirements by the OEMs ▪ Utilisation of unknown hazardous chemical substances (such as asbestos) ▪ Business Interruption 	<ul style="list-style-type: none"> ▪ SHE policies, processes and procedures in place ▪ SHE Induction ▪ Plan Job Observations ▪ TE SHE contractor specifications ▪ OEM SHE requirements presentation at the Scoping Sessions ▪ Approval of hazardous chemical substances ▪ Training and Awareness on the Material Safety Data Sheet (MSDS) ▪ Medical surveillance programme ▪ Business Continuity Plans

Information provided by TE



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Business Risks: Level 1

Risk	Risk Description	Mitigating actions
Quality Management Risk	<ul style="list-style-type: none">▪ Delivery of inferior products (i.e. defects, poor quality)	<ul style="list-style-type: none">▪ Change Control Board in place▪ Regular Production Meetings▪ In-line inspections and internal audits to ensure compliance to SOP▪ Supplier audits and incoming material inspections▪ Audits, quality control plan, Quality Management Framework▪ Inspections conducted as per customer request

Information provided by TE



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Action Plans – Accelerated Loco delivery and associated business impacts

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Issue	Action Owners
1. Contract management risk assessment based on the analysis of contract conditions	Group and OD Legal, Group, TE & TFR Risk
2. Establish governance steering committee at Group level.	Chief Risk Officer
3. Acid test of rail replacement business case	TFR & Group Finance
4. Reputational risk should be proactively managed including stakeholder engagements and communication especially with the media. Full involvement of Group Communications is required	Group Communications, TE & TFR Risk
5. Quantification of funding alternatives	Group Finance
6. Operational readiness plan to be shared with Group Risk (Completed)	TFR Capital Program Office
7. Insurance management (integrated approach) to be finalised (Completed)	Group Insurance
8. Change Management between TFR and OEMs to be formalised	TFR COO
9. Design freeze to be implemented timeously to provide sufficient time for Supplier Development	TFR/TE COO
10. Decision on the allocation of production facilities between Koedoespoort and Durban to be finalised	TFR/TE COO



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Engagement with DPE and National Treasury on 23 May 2014

No.	Item	Response
1	What do Transnet mean when we say contract in execution?	The contract is in progress and can be reversed if approval is not obtained.
2	What are the types of freight and the routes on which they will be transported?	This is well documented in the 2014/15 corporate Plan. Primarily the freight targeted is: <ul style="list-style-type: none"> • Manganese • Domestic Coal • Mining minerals • Intermodal (containers and automobiles) • Road to rail shift
3	What is the deployment plan and the impact of the deployment on volumes	This will only be available as the locomotives are deployed onto the network and the associated impact on volumes will be recorded once the locomotives are in operation. In order to measure full impact the locomotives would need to be operational for a full year as all volume commitments are quoted in annual quantities. Monthly extrapolations can be determined.
4	Why did Transnet not confine the acquisition to two suppliers	Tractive effort is the key constraint impacting volumes. TFR needs to grow faster than the commitment to volumes in plan. The shortfall in tractive capacity needs to be augmented. In executing the 1064 tender process around December 2013, Transnet had the benefit of observing the progress in terms of: <ul style="list-style-type: none"> • Which tenderers were providing the most value • The various competitors bidding • CSDP offerings of the various tenderers Transnet did not want to place ourselves in a position where Mitsui became a monopoly for the supply of locomotives to the Coal Line, Mitsui would be supplying 210 locomotives to the Coal Line if awarded the tender. Initial capital outlay constitutes about a third of the total cost of ownership. Allowing Mitsui to be the monopoly supplier will impact the long term cost on the Coal line. Transnet would be in a 'sitting duck' position if this was allowed.
5	Delivery on SD against existing contracts. Provide a report on the performance.	GE have produced an SD report as it relates to the acquisition of 143 locomotives that have recently been built and supplied to TFR. A portion of the report (Annexure B1) is attached for your ease of reference.
6	Provide specifics as it relates to the 70% localisation mentioned in the submission	The specifics are part of the negotiations currently underway and will be provided once agreed to and finalised.
7	Was the PPPFA followed when determining the tender specifications for this contract?	Yes. Transnet applied the 90/10 rule
8	What are the SD obligations on the 95 CSR locomotives	Overall SD obligation is R1787m (65% of contract value). Actual SD to March 2014: R441m <ul style="list-style-type: none"> • Localisation (R163,4m)

No.	Item	Response
		<ul style="list-style-type: none"> • Skills development (R46,91m) • Investment Plan (R92,03m) • Industrialisation (R136,21m) • Small business (R0,14m) • Rural development (R2,58m)
9	What measures have Transnet put in place to ensure delivery against local content?	<p>There are various measures in place which include:</p> <ul style="list-style-type: none"> • Plans need to be submitted between 90-120 days after contract sign off by the awarded tenderers • Non-submission of the requisite plans is grounds for termination • Inclusion of SD penalty clauses are included in the contracts • Obtaining an SD bond to cover default risk • Appointment of Socio-Economic monitors to provide assurance around the performance against planned SD commitments. • Transnet Engineering is the appointed local assembler
10	Apart from concentration risk by utilising one supplier what are the other risks/issues relating to the appointment of one supplier?	<p>Standardisation. The fleet currently consists of 21 different locomotive models which negatively impacts costs in terms of:</p> <ul style="list-style-type: none"> • Spares holding and specialist tools for each locomotive model • Infrastructure • Operational issues • Driver certification. Driver certification of competency for each model • Training regimes • Maintenance in terms of engineering skills requirements and fault diagnosis for each locomotive model <p>CSDP benefits are considerably greater than if the 1064 contract was awarded to a single contractor</p> <p>The 1064 contract as mitigated as it relates to:</p> <ul style="list-style-type: none"> • Delivery • CSDP • Business could not wait for the schedule as per the 2013/14 Corporate Plan as that would severely impact volume throughput • The cost of the 1064 acquisition would be between R60 and R65 billion if the original delivery schedule was adopted as we would be hedging over a 2-3 year longer period. • GE and CSR are not considered risky as their track record has been established and their products are working well in our operations. CNR and BT although not considered risky are untested in our operations

No.	Item	Response
		<p>and will be appropriately mitigated</p> <p>2 suppliers are considered ideal for each of the diesel and electric components of the 1064 acquisition. High enough to mitigate concentration risk and low enough to obtain maximum CSDP benefits. 3 suppliers each for electric and diesel locomotives would dilute CSDP benefits and render Transnet unable to take advantage of economies of scale. This will also drive up the locomotive cost per unit.</p>
11	What do the Socio Economic monitors do?	<p>After the Gautrain was completed, Transnet engagement with their management to assist Transnet in addressing the matter of monitoring the socio economic initiatives on the project and determining if objectives were met. Arising out of that discussion was the appointment of SEMs who provide an assurance role through assessing the achievements against initiatives provided in the plan. This will enable Transnet to report on socio economic activities of the project.</p>
12	The suppliers are aware of Transnet's acute need for tractive capacity and would not be fearful of a termination clause as it was unlikely to be enacted	<p>On the contrary, Transnet will not hesitate to terminate a contract where it is warranted. Termination is a last resort after all avenues to ensure performance have been exhausted.</p> <p>Locomotive suppliers are in the business of manufacturing locomotives and it's not in their interest for their contracts to be terminated as this affects reputation in a massive way. The OEMs see this contract as their gateway into Africa. This contract is therefore given their utmost efforts as it is an opportunity for them to make a first impression.</p> <p>OEMs have thus far been enjoying a free partnership with TE which enabled them to enjoy super profits while TE earned a small margin. Transnet is exploring the option of co-operation agreements and a profit sharing model.</p> <p>In conjunction with the PWC work conducted between the DPE and Transnet it has been established the OEMs are protective over their Intellectual Property. In line with the Minister's vision, TE wants to move into the OEM space from a strategic perspective and Transnet is confident that with the combined scope of the various localisation initiatives with each of the contractors, we are in a position to complete the basket of becoming an OEM.</p> <p>OEMs sub-contracting to TE have established a concrete relationship and launch pad for their expansion into Africa.</p> <p>Suppliers like EMD need to re-examine their strategic positioning in Africa as they are currently not getting much work outside of the USA.</p>
13	Provide clarity on the delays relating to	<p>Transnet's initial approach as it relates to timelines for the tender process was not realistic. The 1064 tender is large and</p>

No.	Item	Response
		ability to generate cash. Funders will advance funds to Transnet based on its cash generating ability.
23	There seems to be problems with the MDS, should DPE be concerned?	<p>If the 100 and 1064 locomotives are not delivered timeously then Transnet will be in trouble. The next 24 months will define Transnet's history and success.</p> <p>There are delivery risks as it relates to the awarding of the tender.</p> <p>No concern as the plan is realistic and do-able. The most significant factor is however tractive effort. We have re-baselined volumes and have instituted active plans in terms of cash realisation.</p> <p>OEMs are very much committed to delivery. The diesel locomotives are not very different to those already produced. The 100 locomotives for the Coal Line is not very different to the 95 CSR Dual Voltage Electrics currently in production.</p> <p>Transnet has a plan in place to manage China North Railway and Bombardier Transport to ensure that delivery is as contracted.</p>
24	Diesel versus Electric. How is the split determined?	The configuration of the infrastructure is a key determinant. Non-electrified lines may only operate diesel type locomotives. Demand on this section of the network will determine the quantity of locomotives. A slide of the network is provided in addition.
25	Coal expansion to 81mt, how were the mine plans determined and timing of Transnet capacity?	<p>The 81mt expansion is already secured by 'take or pay' contracts. Expansion to 97mt is dependent on mine plans and will be firmed up through a commercial validation process. As indicated earlier, water and electricity are the potential constraints to the Waterberg expansion.</p> <p>A planning process is being undertaken to determine when capital is being deployed. Capital will not be removed from the plan but deferred.</p>
26	If urgency was not an issue who would be the preferred bidder?	An open tender process would have been followed and the outcome of that process would determine the preferred bidder.
27	DPE need to find a sense of comfort. Is TE in a position to take up given the urgency?	<p>The 1064 process gives effect to the Minister's vision incorporated in the study. The 100 locomotive contract consists of basic work and similar to the type of work done in the past.</p> <p>A high level scope of the TE work will be submitted to Transnet's Board Acquisition and Disposals Committee in June 2014. CSDP plans will be shared as well.</p>

Appendix 14

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Chairperson of the Board
Transnet SOC Ltd
P O Box 72501
PARKVIEW
2122

Dear *Mr Mkwana*

TRANSNET'S APPLICATION IN TERMS OF SECTION 54(2)(d) OF THE PUBLIC FINANCE MANAGEMENT ACT FOR THE ACQUISITION OF 100 DUAL VOLTAGE LOCOMOTIVES FOR THE EXPORT COAL LINE

I refer to your letter dated 10 April 2014 with regards to the abovementioned matter.

I note Transnet's intention to acquire 100 dual voltage electric locomotives for the Coal Export Line at an estimated cost of R4.8 billion. I understand that this acquisition will release 125 locomotives from the Export Coal Line to the General Freight Business (GFB) to mitigate against possible volume and revenue deficits due to the delay in the 1064 GFB locomotive tender process.

However, Transnet's submission has limited information on the procurement strategy to be adopted. The National Treasury requires reassurance that Transnet's preferred accelerated confinement procurement method was the most appropriate strategy given the circumstances. In order to establish this, Transnet must disclose the alternate suppliers that were considered and evidence of how and why China South Rail (CSR) was selected as the preferred supplier. In addition, the following information would be helpful to provide assurance that the proposed procurement strategy complies with all legislative requirements:

1. Comprehensive analysis of the five procurement options considered by Transnet (Go out to tender, Do nothing, Confine, Extend the current 20E contract for 85 CSR locomotives, and leasing);
2. Detailed evidence on how the confinement method was selected as the preferred option;
3. Details of Transnet's current contract with CSR with emphasis on its compliance with legislative requirements such as the Preferential Procurement Regulations and the National Industrial Participation Programme; and

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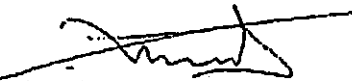
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4. Risk management plan to mitigate against all possible risks that may derail the project.

I look forward to your assistance in providing the required information to enable an informed decision to be reached regarding the acquisition of the locomotives.

I trust that you will find the above to be in order.

Yours sincerely



NHLAMHLA M NENE, MP
MINISTER OF FINANCE

DATE: 29/9/2014

cc Ms L Brown, MP
Minister of Public Enterprises

