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

REPORT

VOLUME IV

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Appendix 18 502

Item #	Date	Document	Description/Event
1	December 2011	[see procurement strategy of April 2012]	• Contract concluded for 43 diesels and tender issued for 95 electrics
2	07/12/2011	[See memo to BADC of 23 August 2012]	• Minister of Finance grants Schedule 2 entities exemption from most PPPFA regulations
3	February 2012	[see procurement strategy of April 2012]	• Transnet Board of Directors (BOD) approves Transnet Freight Rail (TFR) locomotive fleet plan
4	09/03/2012	Business Case Version 0 Dated 5 March 2012 – 45 pages	• Procure 1064 Locomotives for TFR General Freight • submitted to Transnet Freight Rail Investment Committee (TFRIC) • Prepared by F Callard, financial model prepared by Janse Maria • Minute reflects ETC of R38,2bn but excerpt from minutes has ETC of R43,4bn
5	09/03/2012	Excerpt of minutes of TFRIC meeting	• TFRIC resolves to support business case • In re procurement of 1064 at R43 373 billion (*sic*) • Basically a resolution in support of the business case, subject to stated conditions
6	19/03/2012	Excerpt of Minute of CAPIC meeting	• ETC at R38 146 million (*sic*) • Submission was not given with business case presentation: decided that a submission was to be made to members of the committee and comments to be submitted to acting chair (Mr. Gillman) • Mr Gillman and Mr Gama to decide on external party to review the business case and provide a risk assessment • Business case not recommended for approval to Group Executive Committee • Special CAPIC meeting to be held
7	April 2012	1064 Procurement Strategy Submission - Presentation	• Styled: "*TFR General Freight (1064) Procurement Strategy Submission – 7 year Plan*" (procurement strategy of April 2012) • Submission to BOD • 6 step Evaluation process explained in detail • Approvals required from BOD stipulated: acquisition strategies (open tender programmatic procurement) + delegation of authority to GCE to approve the issue of tenders (subject to PFMA approval)
8	19/04/2012	[see procurement strategy of April 2012]	BADC agreed to programmatic evaluation process with the following thresholds: Price 60% SD 20% BBBEEE 20% • Procurement strategy recommended to BOD by the Board Acquisitions and Disposals Committee (BADC) after minor changes • MDS volumes anticipated to grow from 87,7 m tons in 12/13 to 170,2 m tons in 18/19 • National Treasury local content requirements 55% diesel and 60% electric
9	23/04/2012	[See memo to BADC of 23 August 2012]	• Transnet Freight Rail (TFR) – custodian of tender process – send draft RFP's to Group Supply Chain Management for review

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1	25/04/2012	[See memo to BADC of 23 August 2012]	• consolidated review meeting held to discuss and workshop RFP's - After circulation of Draft RFP's to Group Finance, Tax, Governance, Treasury, Insurance, Legal and Supply Chain for commenting
1	25/04/2012	Excerpt of Minute of BOD meeting	• Board (in morning in PE) approves process for 1064 acquisition and delegates authority to GCE to issue RFP • Resolved (approved) o Process to be followed per procurements strategy, subject to PFMA approval o Delegate authority to GCE to approve issue of RFP's, subject to PFMA approval
1	26/04/2012	[See memo to BADC of 23 August 2012]	• Draft RFP's incorporating comments of all relevant group functions sent to TFR for incorporating and consideration
1	7/05/2012	Memorandum from Garry Pita to Anoj Singh and Brian Molefe	Memo from Pita to Singh and Molefe recommending: • Confinement of business to the estimated value of R50 million for advisory services re 1064 • Procurement strategy that will be considered • Delegate authority to Acting GCFO (Singh) to award business after adjudication process
1	10/05/2012	[See memo of Anoj Singh to Brian Molefe of 22 August 2012]	• GCE approves a confinement for transaction advisors, which confinement includes PWC
1	12/05/2012	Excerpt of Minute of CAPIC meeting	• Purpose: collate comments on business case + decide on party to review business case and provide risk assessment • This is the meeting where it is stated that Transnet needs to augment the business case from a Group's perspective to ensure that it is addressing all risks associated with the business case • Further o BOD approval requested for RFP issue to market subject to PFMA approval o Department of Public Enterprises (DPE) and National Treasury (NT) to be engaged in the PFMA approval process • The Acting Chairman said to have conducted a risk assessment and engaged a multi-disciplinary team of transactional advisors to advise with the business case
1	30/05/2012	Request for Proposal "RFP" document prepared by Tmanset	• Request for proposal for the Appointment of Advisory Services Related to the Acquisition of the 1064 Locomotive Tender
1	05/06/2012	[See memo to BADC of 23 August 2012]	• Group receives back RFP's with amended comments and additional changes
1	07/06/2012	Response to PFR document dated 7 June 2012	• Response to GSM/12/05/0447: For the appointment of advisory services related to the acquisition of the 1064 Locomotive Tender : Response by Mckinsey & Company, Letsma Consulting, Advanced Rail Technologies (ART) Nedbank Capital, Edward Nathan Sonnenbergs (ENS) Koikanyang INC and Utho Capital

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1	08/06/2012	[See memo to BADC of 23 August 2012]	• Follow up RFP review meeting with representations from Group Supply Chain, Finance, Tax and Legal functions • Additional information to be incorporated into RFP's identified
2	11/06/2012	[See memo to BADC of 23 August 2012]	• Combined review by TFR and Group Supply Chain function • Consolidation and finalization of all changes to RFP's took place
2	11/07/2012	[See memo to BADC of 23 August 2012]	• TFR submits final RFP to Group Supply Chain for final Review • GCE approval of placement of (RFP) advert received
2	12/07/2012	[See memo to BADC of 23 August 2012]	• Group Supply Chain forwards final updated RFP's Review (in track)
2	15/07/2012	[See memo to BADC of 23 August 2012]	• RFP advert issued, stating RFP's would be issued to market on 22 July 2012
2	16/07/2012	[See memo to BADC of 23 August 2012]	• NT issued instruction note re "Invitation and Evaluation of Bids Based on Stipulated having Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector" (instruction note) having an implication of the evaluation process to be employed in the Transaction, RFP's of which would go to market on Monday 23 July 2012
2	17/07/2012		• Integrated Supply Chain Management (ISCM) meet with NT officials re implications of instruction note on Transaction with particular points of clarity sought, having regard to exemption from most PPPFA regulations granted by Minister of Finance to all schedule 2 entities on 7 December 2011 • NT respond to the points of clarity sought
2	23/07/2012	RFP document contains issue date 2 July 2012	• RFP issued for 1064 Locomotives
2	23/07/2012	Memorandum to BADC	• From GCE/Brian Molefe (BM), Anoj Singh (AS)/GCFO and Garry Pita (GP)/ Group Chief Supply Chain Officer (GCSCO) • Re update on Transaction • Given the instruction not +clarity from NT: RFP's to be amended as certain parts of the Instruction note applies to the Transaction o Evaluation model now to be followed included and explained o RFP's still to be issued on 23 July 2012 as any delays will compromise meeting MDS objectives, but it will now be done in parts o Part 1 to be issued first and contains all information required by Instruction note (components of part 1 listed) o Other parts to be issued later comprising aspects such evaluation criteria, evaluation methodology, weightings and supply agreement, Financial Total Cost of Ownership etc... etc • Transnet to approach NT while RFP's (part 1) is in the market to obtain full exemption from application of PPPFA regulations as a matter of urgency – RFP's

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			to be aligned by addendum on approval of exemption • GCE was delegated authority by BOD to approve RFP's and authorise issue to market
2	27/07/2012	Transnet Acquisition Council Resolution/ Minute 184/2012TAC	Transnet Acquisition Council approves split award to McKinsey consortium and Webber Wentzel
2	31/07/2012	Excerpt of Minute of BADC meeting	• Meeting deals with the PPPFA withdrawn exemption and how Transnet is to deal with the situation • Noted that NT decision to withdraw exemption amounts to administrative action that can only be reversed by a court of law • Transnet acted on decision by NT but will challenge same through the MPE • Meeting between the Chairman, MPE, GCE and GCE and DG was scheduled for 1 August 20012
3	21/08/2012		• BADC recommends to negotiate with highest scoring tender (CSR) and with an option to negotiate with second highest (BT) re 95 electric locomotives
3	22/08/2012	Memorandum from Anoj Singh to Brian Molefe	• From Anoj Singh (AS)/ Group Chief Financial • Re appointment of advisor of 1064 locomotive tender • Request for appointment of McKinsey Consortium for complete advisory services and Webber Wentzel for legal advisory works as transaction advisors on 1064 tender • Background: GCE previously approved a confinement for transaction advisors, dated 10 May 2012
3	29/08/2012		• Board approves Sharma appointment as chairman of BADC
3	22/10/2012		• Transnet signs agreement with CSR re earlier "accelerated" tender – CSR to supply 95 electric locomotives
3	30/11/2012	Letter of Intent from Transnet to Mckinsey	Letter of Intent from Transnet to McKinsey (and the other members of its consortium including Regiments, Nedbank and Advanced Rail Technologies: • For 9 months commencing from 15 January 2013 to 15 October 2013 • Main deliverables: • Business case • Transaction process • Negotiation
3	December 2012		• Transnet appoints consortium (led by McKinsey) to advise on the procurement of locomotives
3	07/12/2012	Letter from DPE	• Addressed to BOD Chair (Mafika Mkwanazi) • Re the withdrawn PPPFA exemption • Acknowledges that there are issues in that regard, that MPE is engaging with NT personally and Transnet should cease all communication with NT in this regard until issue is resolved • Provides Transnet is to continue procure as if the extension to the exemption is in place • Further guidance on how to deal with instruction note re "Invitation and Evaluation of Bids Based on Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector" – should MPE agreement with NT require change Transnet can alert bidders a that stage

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3	11/12/2012	RFP document	• RFP Part 2 issued (both electric and diesel) – with closing date 26 February 2013 (date later extended)
3	28/12/2012	Letter to MPE	• Addressed by BOD chair • Confirms Transnet having gone ahead with the "Tender" issue as per MPE letter of 7 December 2011 (i.e. as though the required exemption is in place) • Basically provides that Transnet's interpretation is that the instruction note should be complied with pending agreement between NT and MPE (potential risk of irregular expenditure) • Transnet awaits MPE advice on agreement with NT
3	January 2013	Presentation to the ISCM Governance dated January 2013	• Re change evaluation methodology required in Transnet's procurement processes, as no further exemption from PPPFA subsequent to instruction note of NT withdrawing exemption that had been granted to Schedule 2 entities
4	08/01/2013	Subcontract Document	• Subcontract concluded between CSR E-Loco Supply (Pty) Limited and CSR Zhuzhou Electric Locomotive Co. Limited for 95 Class 20E Locomotives
4	15/01/2013 (On cover but in agreement says 5 January)	Agreement between Transnet and McKinsey re 1064 (Agreement):	Agreement between Transnet and McKinsey re 1064 (Agreement): • Expiry date 31 March 2014 • Same project deliverables as LOI • R35,2 million
4	February 2013	Presentation to the BADC February 2013	• To BADC • Objective is to inform BADC of required change in evaluation methodology required in Transnet's procurement processes, due to further exemption not having been obtained, way forward and interim measures • BADC is requested to provisionally approve Transnet's options to incorporate Supplier Development and Empowerment in procurement processes whilst ensuring alignment to the PPPFA evaluation framework
4	04/02/2013	Memorandum from Siyabonga Gama to Brian Molefe	• From SG/ TFR CE • Re recommendation: GCE to note extension of part to RFP closing date from 26 February to 30 April 2013
4	20/03/2013	Memorandum to BADC from Anoj Singh	• From AS/GCFO • Re progress of Transaction adviser (*sic*) team and associated governance and approval processes • RFP update from TFR + PPPFA impact • Estimated costs of transaction said to be R38.146 million
4	March 2013	Presentation Document styled: 1064 Locomotive transaction advisory team update Annexure A"	• Basically re expedited business case and approval potentially seeing the completion of procurement process faster • Contains schedule of internal processes to take business case to BOD in June 2013 o From TFRIC, to CAPIC, to EXCO, to BADC, to BOD • Notes inter alia date of first/initial version of business case • Documents also lists a proposed governance structure of the Locomotive Transaction Team and list the names of the various structures, including

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			○ Steering committee (TFR CFO, Nomfuyo Galeni mentioned here) ○ Working team, including ▪ TFR subject matter experts ▪ Group Finance ▪ Transaction advisors
4	19/03/2013	Transnet's letter to the Department of Public Enterprise	• Letter to MPE from Transnet requesting that a task team be constituted to develop a framework in re exemption of Rolling Stock from the PPPFA regulations for this transaction
4	27/03/2013	Excerpt of Minute of BADC meeting	• Re current status of Transaction, including impact of withdrawal of PPPFA exemption – says BOD drafted correspondence to MPE to request NT to review withdrawal of PPPFA exemption • Notes extra caution to be taken to ensure there is no perceived preferential treatment associated with Transaction • EY said to be responsible for finalisation of the RFP process • Chairman stated that the GCE should be the face of the project and this project should be treated as a Transnet project as opposed to an OD project • CSR said to have given assurances that the 95 locomotive will be challenge free
4	03/04/2013	Email dated 03 April 2013	• Email from Johan Bouwer to Mohamed Mohamedy regarding 1064 Business Case Progress Concerns
4	15/04/2013	Minutes of the Transnet Locomotive Steering Committee	• of 1064 Locomotive Steering Committee (LSC) • resolved recommendation to Group Executive Committee to approve amendment of its mandate subject to changes per par 3.1.1 on pg 2 • 1064 loco Business case presented, but said to be in the process of being developed [see par 3.2.1 on pg 2]... also GCE requested business case to be presented at meeting to be held 18/04/2013 with the business case being circulated on 17/04/2013 • SteerCo resolved on approval stated in presentation, same to be used in upcoming meeting with DPE and NT • SteerCo agreed on the HVT Process [par 3.3 on pg 3] (Taken through that submission by a Mr. Rachidi) ○ SG raises concern that increasing size of team could increase risk of conflicts of interest and leakage (concern to do with suggested international peer review) ○ Matter to be discussed by Mr Wolfenden, SG, GP and Thamsanqa Jiyane (TJ) • SteerCo said to have agreed on an evaluation criteria that required National Treasury approval prior to 28/04/2013 [par 3.4.2 pg 3] • TJ highlighted conflicts of interests that emerged regarding the 95 electric locomotive tender in relation to EY, which had DPE and NT request some audits • PPPFA option discussed as well as the fact that there would be a meeting with DPE and NT on 17 April 2013; also that chair of the BADC along with GP and AS would meet with the DG of DPE on 15 April 2013 re the PPPFA matter • SteerCo draft mandate attached: undated
5	15/04/2013	Transnet letter to MPE	• Addressed by chair of BOD • Basically goes back on what stated in Transnet letter of 28 December 2012

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			○ Follows MPE direction (per letter of 7 December 2012) to Transnet that it is not to consider itself bound by paragraph 5.1.2 of the instruction note on Rail Rolling Stock (not to include SD and evaluate on 90/10 or 80/20 • The penultimate paragraph of the letter that bar the formal granting of the required exemption the evaluation process based on the tender documents issued and the award of the tender will be in conflict with the PPPFA, with the potential risk of irregular expenditure due to non-compliance with the PPPFA
5	15/04/2013	MPE letter to NT	• MPE imploring NT Minister to allow the 1064 tender as advertised, with reasons
5	16/04/2013	Letter from the Shareholder Minister to the Minister of Finance	• Shareholder Minister wrote to the Minister of Finance, wherein the Shareholder Minister requests that Transnet be allowed to "*conclude this procurement process with exemption from the Instruction Note's re-instatement of the 90/10 provision of the PPPFA in SOC capital procurements*".
5	18/04/2013	Excerpts of minutes of LSC meeting	• Essentially deliberations on the business case and resolution of the PPPFA matter with the NT Minister (re letter to be written by MPE for urgent review of position taken by NT re PPFA • Transnet Capital Investment Committee approves the acquisition of 1064 locomotives for a total cost of R38,2bn (excluding hedging and escalation)
5	18/04/2013	Memorandum to BOD (Special Meeting)	• From BM • Recommends approval of MPE of business case and ETC at R38.6bn (excluding forex escalations, forex hedging and other price escalations)
5	18/04/2013	Excerpts from draft minute of CAPIC meeting	• Purpose being to recommend approval by the Group Executive Committee of the acquisition of 1064 locomotives and the ETC at R38.6bn (excluding forex escalations, forex hedging and other price escalations) • Business case said to have been tabled at the newly constituted LSC on 18 April 2013 and recommended for approval to the Group Executive Committee • Notes concern re whether number "1064" is optimal number for the investment – concern addressed
5	19/04/2013	V Soni SC opinion	• V Soni SC provided Transnet with an opinion dated 19 April 2013. This opinion essentially provides that Transnet is in compliance with PPPFA since the RFPs were initially issued to market on 23 July 2012, which was at a time that the Exemption was still in place
5	22/04/2013	Memorandum from Anoj Singh to Brian Molefe	• Re approval to recommend letter in regard to s54 to be sent to the MPE through the Chairman's office
5	22/04/2013	Excerpts from minute of Group Executive Committee meeting	• Approves mandate of the LSC subject to following amendments – ○ CAPIC should be deleted as a governing body ○ Company Secretary should be deleted as a member ○ The 1064 Locomotives Transaction Business Case Team Lead and the Group Treasurer should be added as members ○ Names of members should be replaced by portfolios

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5	23/04/2013	Excerpt of minute of BADC special meeting	• Committee provided feedback on developments pertaining to the PPPFA exemption, particularly pursuant to the meeting conducted between the DG of the DPE, management (AS and GP) and IS • It is noted that there will be no additional funding needed, the budget is incorporated in the Corporate Plan • Mr Mkwanazi is said to be uncomfortable with the funding aspect of the project **(See 5.1.19)** • Steering Committee established in DPE (comprising of people form Transnet and DPE) to deal with **all section 54 approvals** and a meeting scheduled for 30 April 2013 where the business case would be discussed and NT would also send a representative
6	25/04/2013	Excerpt of draft minute of BOD special meeting	• Approval of business case and ETC • Mr Skosana requested clarity on the proposal to appoint an independent expert on the transaction • Ms Njeke stated that the Committee concluded that it would not proceed with appointment the appointment of an independent expert, however certain Committee members were requested to investigate whether there is a need for an external service provider considering the internal audit resources
6	25/04/2013	Excerpt of minute of BADC meeting	• Adv Soni opinion that withdrawal of PPPFA exemption does not apply to the transaction presented/deliberated • Mkwanazi suggests submission to BOD to rescind resolution on requesting an exemption iro of the 1064 tender
6	26/04/2013	Letter from NT to MPE	Stating that the tender issued in 2012 was "*structured in a manner that is not in conflict with the National Treasury's instruction note issued in July 2012*" and that Transnet should therefore proceed with evaluation
6	29/04/2013	Memorandum from AS to BM	Purpose is for the GCE to sign off the final business case, to be annexed to the application for approval of the proposed investment in terms of section 54 of PFMA
6	30/04/2013	17 Files Received from TFR	• Tender for procurement of 1064 locomotives closed – as extended from 28 February 2013 • diesel loco supply – 4 proposals received • electric loco supply – 7 proposals received
6	30/04/2013		• Evaluation criteria for steps 4 to 6 presented to BM and AS by TJ and SG [Memo from SG to BM re request for approval of evaluation crit and metho for step 4 to 6 of 27/04/2013] • Update of current status of 1064 acquisition process • Table process options for selection of one by BM • Delegate powers to SG to appoint cross functional sourcing team • Update report on each step to BM
6	30/04/2013	Transnet's Letter to the MPE	• Chairman sends letter to Minister of Public Enterprises seeking approval for acquisition and also to Minister of Finance (ito PFMA)
6	30/04/2013	[see BM memo to BADC of 17 Jan 2014 & TIA report of 20 Jan 2014]	• RFP for diesel loco's closed... Transnet receives 4 proposals • RFP for electric loco's closed... Transnet receives 7 proposals
6	08/05/2013	[see TIA report 20 January 2014]	• CFET start evaluation process

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6	08/05/2013		• Commencement of evaluation process (step 1 & 2 – tests for administrative and substantive responsiveness)
7	13/05/2013	Memorandum to the Board of Directors from Brian Molefe *et al*	• Memorandum to the Board regard to the current status with regard to the 1064 Locomotive tender
7	22/05/2013	Transnet's Letter from Anoj Singh to Mckinsey	• Singh letter to McKinsey advising of potential conflict with Nedbank and suggesting that McKinsey finds an alternative service provider
7	27/05/2013	Memo from Siyabonga Gama to Brian Molefe	• Memo from SG to BM re request for approval of evaluation criteria and methodology for step 4 to 6
7	13/06/2013	DPE internal Memorandum	• DPE internal Memorandum
7	14/06/2013	Letter from chairman: Transnet Freight Rail Acquisitions Council (Nomsa Maseko) to Lindiwe Mdletshe	• Submission of offers from tenderers (both diesel and electric) to be considered by TFR and returned to the Transnet Secretary
7	14/06/2013		• TFR request latest signed and audited financial statements of the ultimate holding companies of the tenderers as well as their companies that would be providing the required Parent Company Guarantee
7	18/06/2013	Emails from TFR to Tenderers	• Extension of clarification from closing date 19/06/2013 to 25/06/2013
7	11/07/2013	Memo from SG to BM re update on PMO process for 1064	• Basically an update of the evaluation process • TFR said to have created a "PMO" that will house all relevant docs and approvals for the project • Says TFR CPO (TJ) is overseeing the process • Various types of docs are kept and secured at different points • TFR CE (SG) and GCFO (AS) scrutinize and recommend • GCE (BM) approves succession steps • Verifies that the estimated cost 1064 acquisition over period 2012/13 to 2018/19 if R38,146m
7	15/07/2013	Emails from TFR (Londiwe Shabalala on behalf of Lindiwe Mdletshe to tenderers	• Request for clarification
7	19/07/2013	Emails from TFR to tenderers	• Clarification closes [emails from TFR to tenderers of 15/07/2013]
8	25/07/2013	[See Brian Molefe's memo to BADC of 17 Jan 2014]	• TIA reviewed step 1 & 2 of the evaluation process (both diesel and electric) and signed off on the process
8	01/08/2013	Report referenced in letter of item 2	• Review of financial stability assessment of supply of 599 New Dual Electric Locomotives completed • In line with 1064 Locos High Value Tender ("HVT") Review Process acquisition plan, approved by Transnet Locos Steering Committee
8	03/08/2013	[Memo of 26 May 2014]	• Ministerial consent • Notes approval excluded certain costs • Minister of Public Enterprises grants approval

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8	07/08/2013	[See Brian Molefe's memo to BADC of 17 Jan 2014]	• Diesel & Electric • Approval of recommendat on of step 3 and commencement of step 4 oncurrently with step 5 • Approval by GCE
8	08/08/2013	The BEE scorecard situation	• Same as below at 5 pages plus annexure consisting of 2 pages...
8	19/08/2013	[[See Brian Molefe's memo to BADC of 17 Jan 2014]	• Diesel • GCE approved recommenc ation for step 4
8	22/08/2013	[See • Brian Molefe;s memo to BADC of 17 Jan 2013; and • Thamm Jiyane's memo's to BM, Anoj Singh and Siya Gama of 16 Jan 2014]	• Diesel • Technical commenced witt step 5 • All tenderers met min thre hold of 80% and complied with all MANDAT RY requirements in specification • TIA review results on com letion
8	30/08/2013	Memorandum by Brian Molefe to BADC	A memorandum styled "Mitiga ion of MDS Volumes at Risk through the Investment a id Procurement of 100 class 19E Equivalent Dual Volt ge Electric Locomotives and Class 43 Diesel Locomotiv s" by Brian Molefe
8	27/09/2013		Management submission to re uest BADC to recommend that the Board • Notes that the procuremen of 100 class 19E and 60 Class 43 Diesels will protec GFB volumes from delay in 1064 locos • Approves procurement of 1)0 Class 19E locos for Coal export line for R3,8bn – Mitsui • Approves procurement of 6) Class 43 Diesel locos for GFB for R1,8bn – GE
8	October 2013		Iqbal Sharma's committee ask d to urgently approve supply of 100 electric locos to litsui pending finalisation of 1064 tender
9	30/10/2013		Minister of Finance expresses oncern, inter alia, re profitability being dependent o volumes and tariffs
9	04/11/2013	[See *inter alia* BM memo to BADC of 17 Jan 2014]	• Diesel • GCE approved shortlisting of tenderers that met the 80% technical threshold
9	19/11/2013	Transnet Letter (Mafika Makwanazi) to MPE	• Chairman of Transnet respo ds to questions raised by the Minister of Public En erprises' letter of 3 August
9	19/11/2013	Transnet's Letter to Mckinsey	• Letter from Singh to McKins ey confirming that Nedbank has a conflict of in erest and recommendation to replace Nedbank with Regiments
9	09/12/2013	CFET REPORT	• Report of the Cross Functio al Evaluation Team (Finance) into the tender fo 599 electric locomotives for the GFB
9	10/12/2013	CFET REPORT	• Report of the Cross Functio al Evaluation Team (Finance) into the tender fo 465 diesel locomotives for the GFB

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9	21/12/2013	[see Memo from BM AS and SG to TJ and CFET for 1064 of 27 Dec 2013]	• CFET finalises evaluations for both diesel and electric
9	23/12/2013	[see Memo from BM, AS and SG to TJ and CFET of 27 Dec 2013]	• Memo from Thamsanqa Jiyane to Brian Molefe, Anoj Singh and Siyabonga Gama 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) • CFET issue final reports on the evaluation process
9	23/12/2013	[see Memo from BM, AS and SG to TJ and CFET of 27 Dec 2013]	• Memo from Thamsanqa Jiyane to Brian Molefe, Anoj Singh and Siyabonga Gama 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) • CFET issue final reports on the evaluation process
9	27/12/2013	Memo from BM, AS and SG to TJ and CFET iro of both diesel and electric [see also • memo from CFET (finance) memo to 1064 SteerCo of 15 Jan 2014]	• Purpose o Acknowledge receipt of CFET final reports of 23 Dec 2013 o Approve recommendation to exclude scheduled/unscheduled maintenance from final evaluation + Authorize issue CFET of BAFO's (top 2 in electric loco's and all 4 bidders in diesel – subject to BOD approval o Recommendation to BOD that negotiation be undergone with 2 top bidders for both kinds of loco's • Provides CFET presented it reports to the LSC subcomm (BM, AS and SG) on finalisation of evaluations for both diesel and electric (on or about 23 Dec 2013) o Subcom raised concerns re diesel loco pricing, though CFET (Finance) addressed aspect, their report reconfirmed that the diesel base price is a concern o [there was a] Consolidated report for evaluations proposing negotiation + award for electric business + BAFO offer and TE scope for diesel Memo from Subcommittee of LSC to Jiyane (Chairperson) and CFET recommending: • Approval of CFET basis of evaluation re maintenance • Authorise CFET to issue request for BAFO • Board negotiate with best 2 electric and best 2 diesel bids successful
1	27/12/2013	Memorandum from Steering Committee to CFET	• 1064 Steering Committee issued a memo to CFET (Finance) requesting BAFO letters be issued to BT and CSR in respect of 599 electric locomotives and all 4 diesel tenderers
1	04/01/2014	[See TIA report of 20 Jan 2014]	• Request for BAFO issued o Includes request for submission of offer for alternative private sector subcontractor (TE offers already submitted) – See xnet letter to EMD of 21 Jan 2014 • 3 electric bidders unsuccessful – informed by Xnet
1	4 – 15/01/2014	[See TIA report of 20 Jan 2014]	• BAFO activities finalised

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1	09/01/2014	Letter from EMD to Xnet	• EMD responded to Xnet's request that it provide a quotation using TE as a subcontractor • And raising concern that should the other bidders now be allowed to submit quotes using pvt contractors that would jeopardize the integrity of the process
1	10/01/2014	[see memo from CFET (finance) memo to 1064 SteerCo of 15 Jan 2014]	• Bidders 1 & 2 (Diesel) respond to BAFO issued on 27 Dec 2013
1	15/01/2014	Memo CFET (Finance) to SteerCo]	• Gives update on results of the BAFO request of 27 Dec 2013 to Bidders 1 & 2 (diesel) • to be read in conjunction with CFET (Finance) report dated 10 Dec 2013 • attaches BAFO request of 27 Dec 2013 (annexure A) + reconciliation between BAFO prices and those used per Dec 2013 report (Annexure B)
1	15/01/2014	CFET (Finance) memo to 1064 SteerCo [iro diesel loco's]	• The same as the CFET (Finance) memo of 15 Jan 2014 iro electric Locos
1	16/01/2014	Memo from TJ to BM, AS and SG (sub-comitee to LSC?) [In respect of electric Loco's]	• Purpose: update to GCE on evaluation process and seek support for recommendation for negotiations and award of business to BOD • It recommends negotiation with 2 highest scoring tenderers (T1 and T2) • Proposes/outlines high level negotiation strategy, comprising the following elements: o Price (Hedging and escalation) o Payment Terms o Delivery lead time o Finalizing TE scope of work in line with PPPFA approval as well as BAFO • Memo bears manuscript note of AS (countersigned and dated 20/01/2014), which provides: o *"GCE approval should be subject 1) use of two suppliers + [negotiation/instruction/motivation] 2) split of work +[negotiation/instruction/motivation]"*
1	16/01/2014	Memo from TJ to BM, AS and SG (sub- comitee to LSC?) [In respect of diesel Loco's]	• Same as memo of even date in respect of electric Loco's, but tailored for diesel Loco's – even bears AS manuscript note to same effect as memo aforesaid
1	17/01/2014	[See TIA report of 20/01/2014]	• BAFO workings Finalised
1	17/01/2014	Memo from Brian Molefe to the BADC [Note: In respect of 465 Locomotives only]	• Memo 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) • Update to BADC on progress of the tender evaluation process • recommends approval of tender evaluation process + shortlisted tenderers for negotiations and award to BOD

Item #	Date	Document	Description/Event
			• delegates all necessary powers to GCE to sign, approve and conclude all necessary documents to give effect to resolutions therein • draft RFP and draft contract reviewed internally at TFR and Group as well an external law firm • BOD said to have approved a 6 step evaluation process methodology o Steps set out o Teams responsible set out • CEFT said to have been appointed, comprising members from Technical, Finance, Legal and Supplier Dev depts. of TFR and Group – conduct evaluation • Locomotive Steering Committee (LSC) estb. – govern evaluation and award process obo BOD – chaired by GCE with members being the GCFO, CE TFR, legal, procurement, TIA • Sub-committee of LSC estbablished. to deal with very confidential and detailed matter of evaluation process – GCE, GCFO and CE TFR • (At end of evaluation process) – CFET (Finance) found numerous inconsistencies re bidder completion of scheduled/unscheduled maintenance portion of TCO Model – CFET (Finance) request assistance from CFET (Technical) in this regard • CFET (Technical) review found models required normalising and CFET could not change models obo bidders, thus scheduled/scheduled maintenance required to be excluded from TCO Model evaluation – GCE approved such exclusion • Results of step 3 evaluations before BAFO summarised, CFET recommended same to subcommittee ("subcom") o Subcom raise concerns re price disparity (more than 10% difference), especially in light of National Treasury (NT) PPPFA guidelines o CFET requested to investigate reasons – concluded base prices were too high o Decision reached (after consultation with chairman of BOD and BADC, and TIA) and approved by GCE that all tenderers to submit BAFO • "Final results of step 6 evaluations after" BAFO summarised o Reasons for recommendation of T1 and T4 as preferred bidders presented o Bar AS manuscript note in memo of 16 Jan 2014, first formal reference to split of business awarded – motivation: mostly to meet MDS volume targets? • Memo ultimately recommends (to BOD) shortlisting T1 and T4 as preferred bidders, subject to negotiations - 50%/50% split
1	17/01/2014	Memo from BM to the BADC [Note: In respect of 599 Locomotives only]	• Memo for the purpose of updating BADC, note and recommend tender evaluation process as a whole to BOD, support recommendation of shortlisted bidders and delegate all powers sign, approve and conclude all things necessary to give effect to resolutions per memo

Item #	Date	Document	Description/Event
			• This memo basically contains the same information as the memo by BM to the BADC of 17 Jan 2014 iro diesel loco's • Memo makes the point that tender RFP went out for both CoCo's and BoBo's, but it was subsequently decided that CoCo's are preferred and tenderers were then evaluated on that basis • 2 tenderers fell out for not meeting technical requirements (one (T4) for not complying with al MANDATORY qualifying clauses, the other for only having submitted a BoBo proposal (T6)) • GCE approved shortlisting for those having met technical Threshold • CFET (Finance) once again noted inconsistencies with the scheduled/unscheduled maintenance portions of bidders' TCO models – same process and conclusion reached as with diesel loco's in this regard • Final results of step 6 evaluations summarised o Reasons for recommendation of T1 and 2 as preferred bidders presented o BAFO results iro of these preferred bidders outlined o Concern of per NT PPPFA guideline premium not allowed again raised, and sought to be eliminated o Bar AS manuscript note in memo of 16 Jan 2014, first reference to split of business awarded (this time in relation to electric loco's) – motivation: mostly to meet MDS volume targets? • Also basically recommends that business be awarded to the preferred bidders – 60%/40% split
1	20/01/2014	TIA 1064 Locomotives HVT and FRM Evaluation report	• Intended for SteerCo and BADC • Says TIA has been engaged in the HVT review process for the evaluation stage of the tender having regard to the HVT Methodology and the Tender Management Control Framework • States/recommends evaluation Gateway o gateway review shows that the tender evaluation was successfully concluded with no residual risks that could affect next step in process o evaluation Gateway 3 was complaint with the HVT Methodology o process undertaken classified as satisfactory • recommendation subject to BOD approval
1	21/01/2014	Letter from Transnet to EMD	• Request for BAFO • States o RFP is clear that it's compulsory for TE to be a sub-contractor o Transnet explains that the bid process was not prejudiced/ compromised – see page 2 thereof
1	21/01/2014	Memorandum from Brian Molefe to BADC	• Memorandum from Brian Molefe to BADC
1	23/01/2014	Printed email	• Email from Francis Callard to Siyabonga Gama and Thami Jiyane
1	24/01/2014	Meeting Minutes	• Excerpt of minutes of the special board of directors • In respect of both Diesel and Electric Loco's • Approves recommendation of bidders T1 and T2 for negotiation and award of business

Item #	Date	Document	Description/Event
			• subject to BADC endorsement post negotiation process... • *delegated authority to GCE to sign, approve and conclude all the necessary to give effect to the resolution*
1	24/01/2014	Letter from Transnet to unsuccessful diesel bidders	• unsuccessful diesel bidders include: o Electro-Motive Diesel Africa (Pty) Ltd (EMD) o Alstom Southern Africa Holding (Pty) Ltd (Alstom) o Mars-Ithemba Consortium (MARS)
1	28/01/2014	Letters of Intent to successful bidders	• Bombadier Transportation SA (Pty) Ltd accepts appointment as a preferred bidder – electric loco • CSR E-Loco Supply (Pty) Ltd (CSR) accepts appointment as a preferred bidder – electric loco • GE South Africa Technologies (Pty) Ltd (GE) accepts appointment as a preferred bidder – diesel loco • CNR Consortium accepts appointment as a preferred bidder – diesel loco • Letters state that appointment as preferred bidder does not mean business is awarded • Letters states negotiations are scheduled to commence on 3 February 2014
1	29/01/2014	Letter of Intent	• CSR E-Loco signs letter of intent from Transnet that it accepts Transnets appointment of it as a preferred bidder - electric loco CNR Consortium signs letter of intent from Transnet that it accepts Transnet's appointment of it as a preferred bidder - electric loco
1	31/01/2014	Revised scope as requested by Transnet, prepared by Mckinsey	Advisory services relating to 1064 – Revised scope as requested by Transnet prepared by McKinsey Fee of R10 million for 4 week work and R2,5 million per week thereafter
1	04/02/2014	Memorandum of withdrawal prepared by Mckinsey	Memorandum of withdrawal from provision of services re acquisition of 1064 locomotives
1	21/02/2014	Agreement document	An Execution version of an Agreement between Transnet Soc and Mckinsey Incorporated
1	26/02/2014	Presentation to the Board Acquisitions and Disposals Committee dated February 2014	BADC approves acquisition of 465 Diesel and 599 Electric locos Updated schedule of R52 billion submitted for reconciliation purposes [Management undertook to provide detail on the TE scope of works, in particular the methodology • [Presentation to BADC of revised BAFO by GCFO (TIA)] Subject to final TE Scope of Work Concern expressed by Committee re late submission and delayed Scope of Works for TE A member expressed concern that total costs unclear, some cost elements missing • Comment that Treasury tolerated up to 11% on price differences
1	11/03/2014	Transnet's Letter to the Minister of Finance	Chairman of Transnet responds to queries raised by the Minister of Finance in letter dated 30 October 2013

Item #	Date	Document	Description/Event
1	17/03/2014	Subcontract Document	• Subcontract concluded between CSR E-Loco Supply (Pty) Limited and CSR Zhuzhou Electric Locomotive Co. Limited for 359 Class 22E Locomotives
1	31/03/2014	Report of the Finance Negotiation Team to Siyabonga Gama (TFR CE) and Anoj Singh (Transnet GCFO)	• Key outcomes from the negotiations for the acquisition of 1064 new Locomotives concluded in March 2014
1	17/04/2014	Memorandum from Anoj Singh to Brian Molefe	Singh memo to Molefe recommending that GCE approve change in remuneration model This would lead to an additional fee to Regiments of R78,4 million Value created by Regiments: • As a result of work done by Regiments the delivery schedule was accelerated resulting in savings in future escalation and hedging costs of approximately R20 billion. Overall cost of the transaction reduced from R68 billion to R50 billion • Performance based foreign exchange and performance bond of R2,8 billion • Direct benefits of R218 million and indirect savings of over R500 million. Memo claims Regiments implemented extensive intellectual property and complex techniques and methodologies to achieve the above benefits to Transnet Motivated that although not included in Capital budget however significant savings were achieved
1	18/04/2014	Memorandum from Brian Molefe to the Board Memorandum from Brian Molefe to the BADC	Memorandum from Brian Molefe to the Board as well as a memorandum from Mr Molefe to the BADC re Acquisition of 1064 Locomotives for TFR's General Freight Business
1	23/04/2014	Memorandum from Gary Pita to Anoj Singh	Memo from Pita to Singh objecting to implementation of change in remuneration model for Regiments
1	24/04/2014	First Addendum	First Addendum to MSA between Regiments (as ceded by Mck) and Transnet for additional scope for accelerated delivery etc. and additional fee of R78,4 million
1	29/04/2014	Memorandum from Anoj Singh to Brian Molefe	Memorandum from Anoj Singh to Brian Molefe re Acquisition of 1064 Locomotives GFB – Acceptance of Final Business Case

Item #	Date	Document	Description/Event
1	30/04/2013	Letter from Lucky Mabokela (TIA - director) to Thami Jiyane (TFR)	• Gateway 1 & 2 completed – EY TIA prepare HVT report
1	23/05/2014	Memo from Brian Molefe to Transnet Board of Directors	Memo from Brian Molefe to Transnet Board of Directors explaining increase in estimated total cost of acquisition of 1064 locomotives and requesting an approval of the increase in ETC
1	26/05/2014		BADC approves increase from R38,6 billon to R54,5 billion
1	28/05/2014		Board approves increase from R38,6 billion to R54,5 billion
1	undated	Letter from Mmathabo Sukati (TIA) to Brain Molefe (1064 Steering Committee)	• Transnet requested TIA to review as per above • Primary objective: provide assurance that there were no material errors and inconsistencies in the evaluation computations and process
1	undated	Reference to HVT methodology [pg4, 1st block]	• Transnet requested TIA to review as per above • Primary objective: provide assurance that there were no material errors and inconsistencies in the evaluation computations and process
1	26/05/2014	Minutes of Board of Directors of Transnet	• BADC note reasons and recommend approval of increase in Estimated Total Cost ("ETC") of the 1064 Locomotive Contract to the Board of directors of Transnet ("Transnet") **[pg1 – 2, 5.1.1 – 5.1.8]** o Purpose of submission stated and that the transaction was approved in April 2013 at R38.6bn, which excluded costs listed; o Increase to R54.5bn reasons outlined; o Assessment conducted into Koedoespoort readiness to accommodate 4 OEMs, will cost more but there will be other savings (e.g. import costs); o Most of the increase in the ETC relates to Forex risk mitigation and contingencies o Stated that cost of foreign currency hedging to mitigate and protect Transnet against foreign currency devaluation was an inherent cost in the transaction o Other methods were evaluated from a cost benefit perspective – the Foreign Exchange Certificate option proved most beneficial for risk mitigation o What is requested is not an increase but an update in ETC • A number of concerns are raised in regard to the increase **[pg3, 5.1.9 – 5.1.12]** o TE being more expensive than other OEMs o DBN facilities needing to be refurbished (significantly) at an unbudgeted additional cost o Limited info being gradually submitted for consideration, while committee needed full disclosure to consider (depth of info provided iro TE scope of work not relative to size of transaction) o Consistent price disagreement between TE and TFR, also discontent on TE expensive

Item #	Date	Document	Description/Event
			pricing and reported conflict with TFR – management says resolved
1	28/05/2014	Memorandum by Brian Molefe	• focus areas, 2014/2015 FY: ensure conflicts of interest and declaration procedures are implemented... report new matters of potential conflict of interest **[pg4, 6.3.2, 3rd bullet]** • Reference to funding of 1064 Locomotives proposed strategy to be submitted **[pg5, 5.1.2, 3rd bullet]** • Acceleration of purchase of 1064 Locomotives created short-term capital affordability gap... affordability and impact on financial ratio thoroughly assessed **[pg6, 5.3.2, 3rd bullet]** • Board to note and approve rationale behind the ETC from R38.6bn to R54.5bn **[pg16, 6.16.1 – 6.16.4]** o matter considered by board; o management outlined what increase could be attributed to; o 93% due to changes in market conditions and risk tolerance level of Transnet; o Potential impact on Corporate Plan was assessed and mitigated; o Increase deemed affordable and reasonable; o Risk mitigation measures were developed and implemented; • Possibility of further change in ETC due to proposed relocation of 2 OEMs **[pg16, 6.16.5]**; o Concern re perception that will be created with escalation of costs, all communication around that to be managed sensitively (manage potential reputational issues) o Updated costs to be adequately monitored and properly recorded o Board approve increase in ETC • Note dissatisfaction with TIA/TE performance that required GCE intervention **[pg19, 7.6]** • Transnet said to have announced award of 1064 Locomotive contract at R50bn on 17 March 2014
1	29/09/2014	Minister of Public Enterprises' letter	• Letter from Minister of Public Enterprise dated 29 September 2014
1	08/10/2014	Subcontract Document	• Subcontract concluded between CSR E-Loco Supply (Pty) Limited and CSR Hong Kong Co. Limited for 100 Class 21E Locomotives
1	21/11/2014	Letter from the Shareholder Minister to Transnet	• Letter from the Shareholder Minister to Transnet
1	31/03/2015	Transnet's Letter to the Minister of Public Enterprises	• Letter from Transnet's Chairperson to the Minister of Public Enterprises' letter of 29 September 2014
1	19/05/2015	Memorandum from Ravi Nair to Siya Gama	• Memo from Ravi Nair, Acting CE of TFR to Siyabonga Gama, Acting GCE motivating BT relocation to Durban and recommending that GCE approve variation order for a maximum of R634 million
1	19/05/2015	Memorandum from Ravi Nair to Siyabonga Gama	Memorandum from Ravi Nair to Siyabonga Gama – "joint quotation"

Item #	Date	Document	Description/Event
1	22/07/2015	Memorandum from Ravi Nair to Siya Gama	Memoranda requesting approval to spend R647 million to relocate CNR to TE facilities in Durban [Memo refers to BT relocation cost of R618 million]
1	August 2015		Singh Employed at Eskom
1	08/06/2017	Transnet's letter to CRRC	Transnet's letter to CRRC inquiring about any involvement with Hong Kong companies/ subsidiaries
1	14/06/2017	CRRC's letter to Transnet	CRRC's response to Transnet's inquiries.

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CHRONOLOGY OF BID EVALUATION AND ADJUDICATION 12 July 2017/#4977885v1

CHRONOLOGY OF BID EVALUATION AND ADJUDICATION

Evaluation Methodology

Step 1: Administrative Responsiveness (returnable documents and schedules)

Step 2: Substantive Responsiveness (prequalification)

Step 3: Minimum overall threshold is 60% local content (local content)

Step 4: Minimum threshold is 40% (Supplier Development ("SD") and BBBEE Scorecard)

Step 5: Minimum threshold 80% (Technical)

Step 6: Weighted Scoring/100 (Price incl TCO, SD, BBBEE scorecard, FRC Current, FRF Future)

	Date	Description of Document
1	19/04/2012	Transnet Board of Directors approves the procurement of 465 diesel locomotives subject to section 54 PFMA approval by the Minister
2	13/07/2012	Tender issued for the procurement of 1064 Electric and Diesel locomotives
3	10/10/2012	Memorandum from GCSCO, GCFO and GISM to all CPO: New Directive: Principles and Process for Condonation
4	11/12/2012	RFP Part 2 was issued
5	14/12/2012	Briefing session was convened
6	04/02/2013	Memorandum to GCE: Extension for 1064 closing date from 26 February 2013 to 30 April 2013 **(B)**
7	15/04/2013	Minutes of the Transnet 1064 Locomotive Steering Committee Meeting and Draft 1064 Locomotive Steering Committee Mandate

	Date	Description of Document
8	22/04/2013	Memorandum from GFO to GCE: Approval to send letter to the Minister of Public Enterprises for the Acquisition of 1064 Locomotives in terms of the PFMA
9	25/03/2013	Excerpt from Draft Minutes of the Special Meeting of the Transnet Board of Directors held on 25 April 2013
10	29/03/2013	Memorandum from GCFO to GCEO: Acquisition of 1064 Locomotives for GFB: Acceptance of Final Business Case
11	30/04/2013	Tender closed
12	30/04/2013	Memorandum to GCE: Status update on the acquisition process of 1064 electric and diesel locomotives (see **C**)
13	30/04/2013	Letter to the Minister of Public Enterprises from the Chairman: Application for section 54 Approval in terms of the Public Finance Management Act: Acquisition of 1064 Locomotives
14	30/04/2013	Letter to the Minister of Finance from the Chairman: Notification of Application for Section 54 Approval in terms of the Public Finance Management Act
15	06/05/2013	Memorandum: Appointment as a member of CFET (see **D**)
16	08/05/2013	Cross Functional Evaluation Team ("CFET") commenced with the evaluation of step 1 and 2 in relation to the electric locomotives.
17	27/05/2013	Memorandum to GCE: Request for GCE to approve the evaluation criteria and methodology of step 4 to 6 for 1064 locomotives (see **E**)
18	29/05/2013	Excerpt from the Minutes of the Board of Directors
19	01/07/2013	CFET completed step 2 financial qualification on all bids received (both diesel and electric)
20	02/07/2013	Transnet Internal Auditors ("TIA") received the financial pre-qualifications (both diesel and electric)

	Date	Description of Document
21	10/07/2013	The outcomes and challenges in step 1 and 2 were presented to the GCFO (both diesel and electric)
22	11/07/2013	Memorandum to GCE: Provide update on the PMO Process for the 1064 locomotives (see **F**)
23	15/07/2013	Requests for further clarifications re financial statements of parent companies despatched.
24	24/07/2013	CFET completed step 2 financial pre-qualification on all bids received (both diesel and electric)
25	24/07/2013	Report of the CFET: Findings and recommendations of pre-qualification evaluation of the 599 electronic locomotives
26	25/07/2013	TIA received the financial pre-qualifications (step 2) for the electric locomotives.
27	26/07/2013	Memorandum to GEO: Status Update for Step1 and Step 2 Evaluations and Request to Proceed with Step 3 and 4 of the Evaluations of the 465 New Diesel Locomotives (see **G**)
28	26/07/2013	Memorandum to GCE: Status Update for Step 1 and 2 Evaluations and Request of Permission to Proceed with Step 3 and Step 4 of the Evaluations of the 599 Electric Locomotivesn (see **H**)
29	30/07/2013	Memorandum to GCE: Status update for step 3 and request permission to start with step 5 evaluations concurrently with step 4 for 599 new electric locomotives (see **I**)
30	30/07/2013	Report of the CFET on Local Content (Step 3: local content)
31	31/07/2013	Report of the CFET (Finance): Diesel locomotives
32	31/07/2013	Report of the CFET (Finance): Electric locomotives
33	31/07/2013	All 6 bidders in relation to the electric locomotives were evaluated for step 3 by the Cross Functional

	Date	Description of Document
		Evaluation Team in the presence of Transnet Internal Audit.
34	01/08/2013	Letter to Alstom
35	03/08/2013	Letter from the Minister of Public Enterprise to the Chairman of Transnet
36	07/08/2013	Memorandum from GCE et al to BADC: Submission of the Procurement Procedures Manual (PPM) for Approval by the BADC
37	08/08/2013	Report of the Cross Functional Evaluation Team on BBBEE Scorecard and Supplier Development
38	07/08/2013	GCE approved the recommendation that for step 3 and that the CFET start with step 5 concurrently with step 4 for the 6 bidders
39	08/08/2013	Memorandum to GCE: Status update for Step 4 for 465 Diesel Locomotives (see **J**)
40	16/08/2013	Memorandum to CE: Request for the CE to appoint the Chairperson for the Evaluation Sessions and sign the Cross Functional Sourcing Team Appointment letters (see **K**)
41	19/08/2013	GCE approved the recommendation for step 4 evaluation process
42	19/08/2013	Unsigned Minutes of the meeting of the Locomotive Steering Committee with unsigned manuscript changes
43	22/08/2013	The Technical team commenced with step 5 evaluation process

	Date	Description of Document
44	26/08/2013	Memorandum: Financials submitted by Alstom for the supply of 599 dual voltage electric locomotives for the general freight business. Prepared by Kenneth Diedricks (**L**)
45	04/09/2013	Letter of appointment to the CFET are issued
46	12/09/2013	Memorandum to GCE: Status Update for Step 2, Step, 3 and Step 4 Evaluations for Bidder 3 (see **M**)
47	29/09/2013	Report of the Cross Functional Evaluation Team on BBBEE Scorecard and Supplier Development
48	04/09/2013	Report of the Cross Functional Evaluation Team (Finance) Relating to Bidder 3
49	10/2013	Transnet Procurement Procedures Manual
50	21/10/2013	Memorandum from TFR GM: New 599 AC/DC Locomotives Deployment (see **N**)
51	25/10/2013	1064 Technical Evaluation Report
52	30/10/2013	Letter from the Minister of Finance to the Chairperson of Transnet
53	01/11/2013	Memorandum from TFR GE to GCE: Status Update for Step 5 technical evaluations and request for permission to proceed with step 6 of the evaluation of 599 new dual voltage electric locomotives. (see **O**)
54	01/11/2013	Memorandum from TFR GE to GCE: Status Update for Step 5 technical evaluations and request for permission to proceed with step 6 of the evaluation of 599 new dual voltage electric locomotives. (see **P**)
55	14/11/2013	Memorandum from TFR CE to GCE: New 599 AC/DC Locomotives Deployment (see **Q**)
56	14/11/2013	Memorandum from TFR GE to GCE: Seeking approval to issue step 6 clarification for 599 new dual elective and 465 diesel locomotives. (see **R**)
57	15/11/2013	Transnet despatched requests for clarity re 599 an 465 to the bidders
58	02/12/2013	Memorandum from TFR CE to GCE: Seeking Approval to issue step 6 final clarifications (see **S**)
59	13/12/2013	Memorandum from CFET to 1064 Steering Committee: 465 Diesel – Explanation of Significant Price Disparity between Bidders (see **T**)

	Date	Description of Document
60	19/12/2013	Memorandum from TFR CE to GCE: Seeking Approval to issue step 6 final clarification for 1064 (see **U**)
61	20/12/2013	Transnet despatched clarifications in respect of 465
62	21/12/2013	CFET finalised evaluations for 1064 locomotives
63	23/12/2013	Memorandum from CFET to 1064 Locomotive Steering Committee: 1064 Clarification Responses to Annexure E (see **V**)
64	23/12/2013	Memorandum from TFR CPO to GCE et al: Request for approval to request the final and best offer for the supply of 465 new diesel locomotives (see **W**)
65	23/12/2013	Memorandum from TFR CPO to GCE et al: Request for approval to request the final and best offer for the supply of 599 new electric locomotives (see **X**)
66	27/12/2013	Memorandum from GCE et al: Request for approval to short list tenderers and final and best offer for the supply of 1064 (see **Y**)
67	04/01/2014	Letters to shortlisted and unsuccessful bidders were dispatched.
68	15/01/2014	Memorandum to 1064 Locomotive Steering Committee from CFET (Finance): 599 Electric Locomotives – Results of Best and Final Offer Responses (see **Z**)
69	15/01/2014	Memorandum to 1064 Locomotive Steering Committee from CFET (Finance): 465 Diesel Locomotives – Results of Best and Final Offer Responses (see **1**)
70	16/01/2014	Memorandum to GCE, GCFO, CE: Request for approval to negotiate and award of business to the short listed tenderers for the supply of 599 electric locomotives (see **2**)
71	16/01/2014	Memorandum to GCE, GCFO, CE: Request for approval to negotiate and award of business to the short

	Date	Description of Document
		listed tenderers for the supply of 465 diesel locomotives (see **3**)
72	17/01/2014	Memorandum to the Transnet Board Disposals and Acquisitions Committee from GCE: Request for Approval to Negotiate and Award of Business to the Shortlisted tenderers for the Supply of 465 Diesel locomotives (see **A**)
73	17/01/2014	Memorandum to the Transnet Board Disposals and Acquisitions Committee from GCE: Request for Approval to Negotiate and Award of Business to the Shortlisted tenderers for the Supply of 599 Electric locomotives (see **4**)
74	20/01/2014	1064 Locomotives HOT and FORM Evaluation Report from TIA to Chairperson of 1064 Steering Committee
75	24/01/2014	Minutes of the Special Board of Directors of Transnet
76	29/01/2014	Report of the CFET on Further Recognition Criteria: Locomotive tender Step 6: Supply of 599 Dual Voltage Electric Locomotives
77	29/01/2014	Report of the CFET on Further Recognition Criteria: Locomotive tender Step 6: Supply of 465 New Diesel Locomotives
78	21/02/2014	Memorandum from GCFO to GCE: Approval to send letter to the Minister of Finance for the Acquisition of 1064 Locomotives – Response to Queries Raised
79	11/03/2014	Letter from the Chairman to the Minister of Finance
80	23/05/2014	Memorandum from GCE to BOD: Increase in Estimated Total Cost (ETC) of the Acquisition of 1064 Locomotives for Transnet Freight Rail's General Freight Business

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Persons and companies involved in the procurement process:

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 Mkwananzi (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

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 Mkwananzi (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 Mkwanazi
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

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 Mkwananzi (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 Mkwanazi
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			

* Mr MR Seleka resigned from the Board with effect from 27 November 2015

* Mr PG Williams deceased in March 2017
* Mr SD Shane resigned in June 2017

CAPIC:

1. Mr Molefe
2. Mr Singh
3. Ms P Difeko
4. Mr S Gama
5. Mr m Gregg-Macdonald
6. Mr CA Meller
7. Mr t Morwe
8. Ms M Moses
9. Mr K Phihlela
10. Mr R Valihu
11. Mr K Socikwa
12. Mr D Mclean
13. Ms S Lund

1 Name of the Bidders

Electric Locomotive Bidders

1. Bombardier Transportation South Africa (Pty) Ltd
2. CSR E-Loco Supply
3. Alstrom Rail Consortium
4. Mongoveli
5. Simens (Pty) Ltd
6. CNR Consortium
7. MARS IThemba Consortium

Diesel Locomotive Bidders

1. CNR Consortium
2. CSR Loliwe Consortium
3. EMD Africa (Pty) Ltd ("EMDA")
4. GE South Africa Technologies (Pty) Ltd ("GESAT")

2 Name of the Consultants

Companies involved in advisory services:

5. Mckinsey & Company
6. Letsma Consulting
7. Advanced Rail Technologies (ART)
8. Nedbank Capital
9. Edward Nathan Sonnenbergs (ENS)
10. Kolkanyang INC and
11. Utho Capital
12. Regiments Capital
13. Webber Wentzel

3 **Name of Transnet employees involved in:**

3.1 Business Case

1. Mr Callard
2. Mr Bouwer
3. Ms McMahon
4. Mr Mahomedy
5. Mr Budhai

3.2 Supply Chain Services / TFR

1. Ms Mdletshe
2. Mr Jiyane
3. Mr Sibiya

3.3 Negotiation: Werksmans has received very little information regarding who was involved in the negotiation process, despite Werksmans requests for same.

3.4 Finance Evaluation Team:

1. Mr Laher
2. Mr Moola
3. Mr Smit
4. Mr Seapi

3.5 Locomotive Steering Committee ("LSC"):

1. Mr Gama
2. Mr Molefe
3. Mr Singh
4. Mr Silinga

3.6 Sub-committee of the LSC

1. Mr Gama
2. Mr Molefe
3. Mr Singh

3.7 TIA:

Transnet:

1. Ms Mmathabo

KPMG:

2. Mr De La Rey
3. Mr Hoon

Sekela Xabiso:

4. Mr Mahlamvu
5. Ms Molotwane
6. Ms Nsibande

Nkonki: Werksmans does not know names of individuals who were members of TIA from Nkonki.

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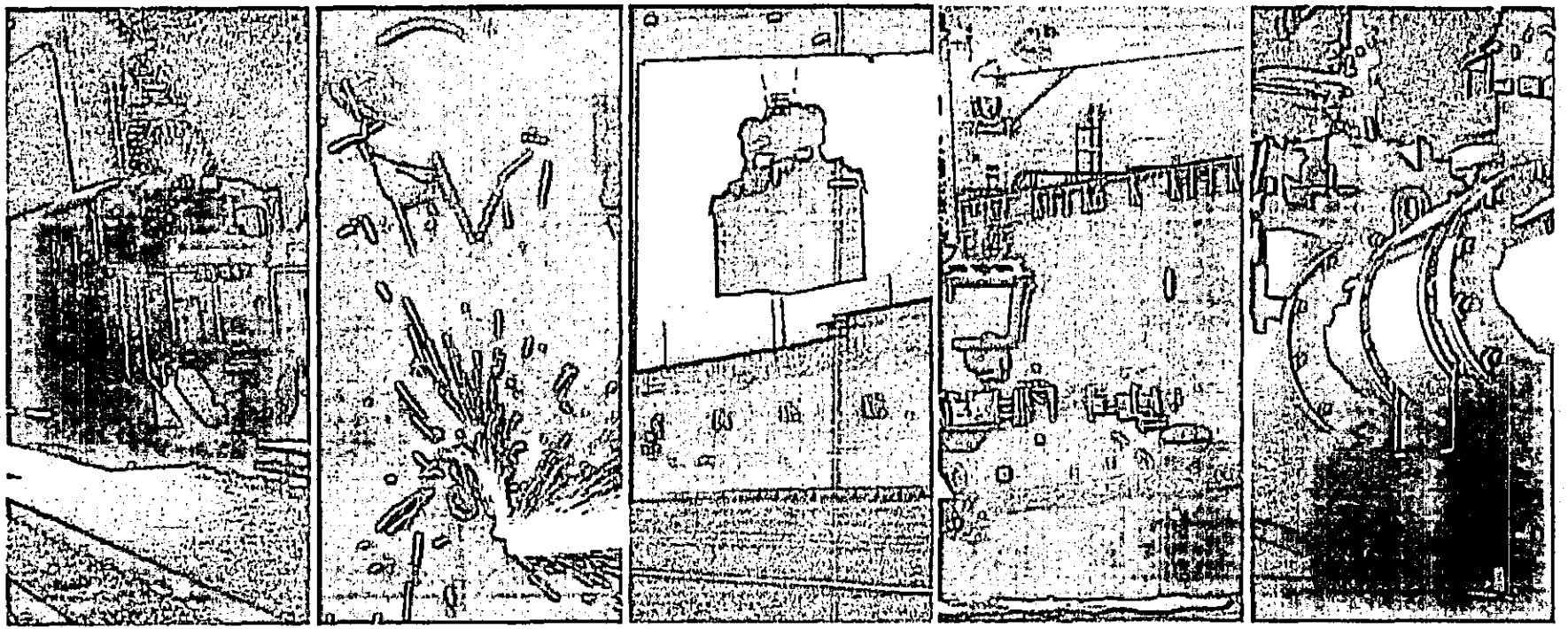

1064 Locomotive transaction advisory team update
Annexure A

March 2013

With expedited business case development and approval, TFR could complete the procurement process in 6-7 months

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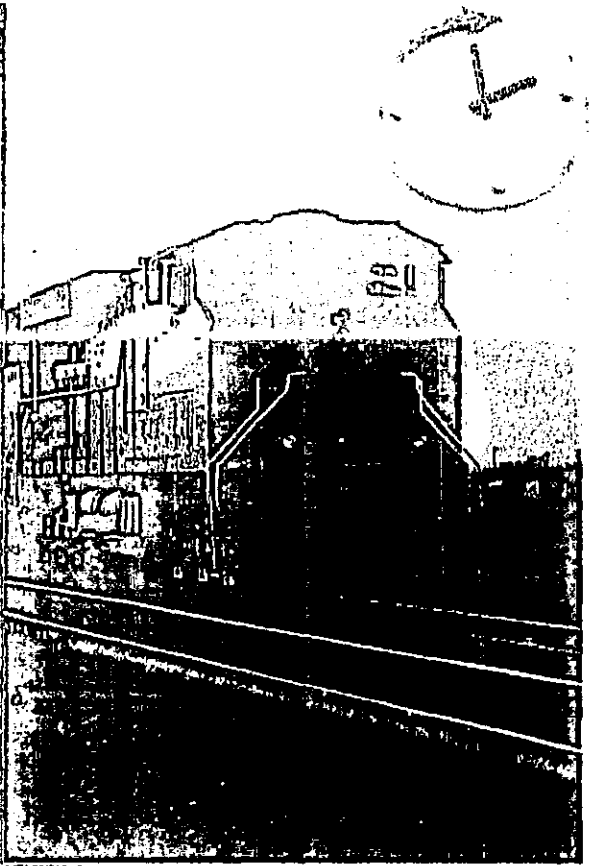
Locomotive procurement schedule

	Time to completion	Date
Business case readiness	~1	April 2013
Transnet internal processes	~2	June 2013
DPE parallel approval process	~3	June 2013
RFP negotiations and contracting	~3	Sep 2013

Concurrent process



PRELIMINARY

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Delivering on this timeline requires swift movement through internal processes

Schedule of internal approvals required to take the business case to the Board in June

Internal processes	Meeting date	Required submission date	DPE syndication sessions
[illegible]	11th April	5th April	Early April: primer on key elements of the business case
CAPIC	18th April	12th April	
EXCO[1]	22nd April	16th April	Late April: detailed review of business case, leaving sufficient time to incorporate DPE feedback prior to BADC review
BADC	27th May	TBD (early May)	
Board	June	TBD (post-BADC)	

1 Tentative submission could take place on April 16th before CAPIC approval, with final version submitted post-CAPIC review on April 18th-19th.

PRELIMINARY
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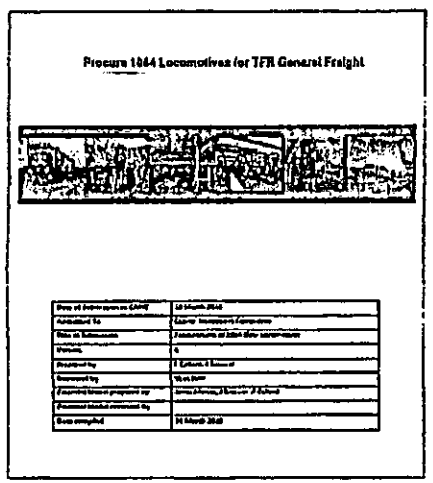
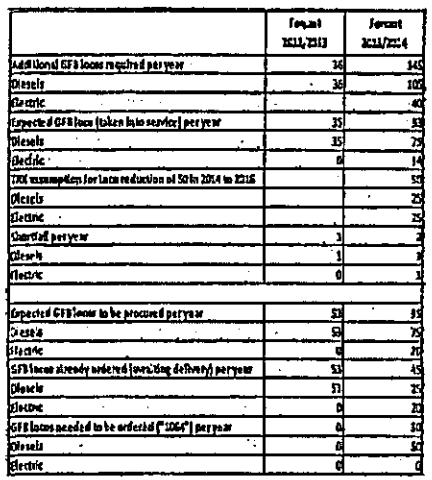
By April 5th, we must produce an updated business case, financial model and procurement timeline

Business case



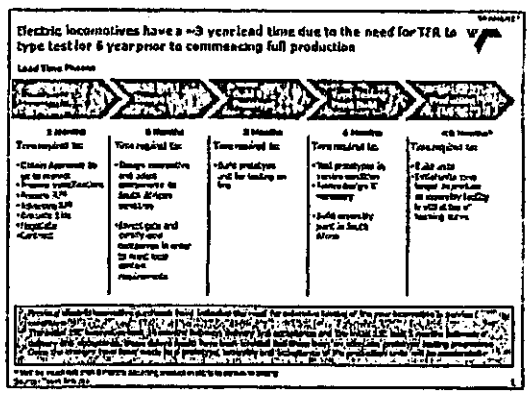
- Addresses questions from DPE, TFR and Group Finance
- Consistent with Transnet's goals with respect to BBBEE, localisation and supplier development

Financial model



- Stress tests NPV calculation and locomotive requirements
- Tests scenarios, illustrating potential risks to be mitigated

Procurement timeline



- Outlines procurement timelines in the context of legal, regulatory and other processes to be followed
- Revises documents to be submitted to market (if/as necessary)

The joint Transnet/Transaction Advisor team must complete the following deliverables

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	Deliverable
Business case validation and stress testing	▪ Review of assumptions of current model ▪ Understanding of fleet requirements and procurement timelines ▪ Validation of transaction NPV calculations, requiring an understanding of TCOs of locos to be procured (Diesel, Electic) ▪ Understanding of key risks and development of mitigation strategies
Legal and regulatory compliance	▪ Review ongoing RFP process to ensure all programmatic and legal requirements are PFMA compliant
Supplier development, socioeconomic impact	▪ Incorporate into the business case elements of the supplier development plan as developed by TFR Supply Chain Services
Funding and deal structuring	▪ Assessment of the optimal deal structure and funding model (including financing, forex hedging, etc.)
PMO	▪ Monitoring of project timelines against milestones and ensuring that all parties are on track to deliver against them ▪ Setting up working group sessions and preparing / coordinating delivery of materials for these sessions
Business case integration and rewrite	▪ Integration of deliverables from all Transaction advisors into a single rewritten business case that is ready for internal and external approval

Proposed governance structure of Locomotive Transaction Team

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Steering Committee

- **Group CE – Brian Molefe (Chair)**
- TFR Chief Executive – Siyabonga Gama
- Group Capital – Mohammed Mahomedy (Sponsor)
- TFR ISCM – Thamsanqa Jiyane
- Group ISCM – Garry Pita
- TFR CFO – Nomfuyo Galeni
- Group CFO – Anoj Singh
- TFR COO – Mlamuli Buthelezi
- TFR General Counsel – Kenneth Diedricks
- GM Group Legal

Working team – based out of TFR (Inyanda Sisonke Boardroom)

TFR subject matter experts

- **Team lead** – Yousuf Laher
- **Finance** – Muhammad Moola, Natasia McMahon, Johan Bouwer
- **Procurement** – Lindiwe Mdtleshe (TBD)
- **Commercial** – TBD
- **Operations / fleet plan** – Stevens Tjabadi, Vilva Nair (TBD)
- **Business case / other** – Francis Callard
- **TFR legal representative**

Group Finance

- **Sponsor** - Mohammed Mahommedy
- **Analyst** – Nlresh Budhal
- **Treasury** representative
- **Group SCS** representative

Transaction advisors

- **Webber Wentzel / Ningiza Horner** – legal and overall procurement process as required
- **McKinsey** – business case and integration (with **Advanced Rail Technologies**)

- **Biweekly SteerCo meetings**
- **2-hour working team problem solving sessions on Tuesdays (chaired by Team Lead)**
- **1-hour working team check in calls as needed (chaired by Team Lead)**

Mandate and TOR will be approved at first SteerCo

Appendix 19 538

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MEMORANDUM

To: The Board Acquisitions and Disposals Committee

From: Brian Molefe, Group Chief Executive
Anoj Singh, Group Chief Financial Officer
Nkuli Mabandla, Group Executive: Legal Services
Garry Pita, Group Chief Supply Chain Officer
Peter Volmink, Executive Manager: Governance, Group iSCM

Date: 12 March 2013

SUBJECT: ALIGNMENT OF TRANSNET'S TENDER EVALUATION METHODOLOGY WITH OPINION RECEIVED FROM SENIOR COUNSEL ON PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT (PPPFA) AND ITS REGULATIONS

PURPOSE:

1. The purpose of this document is to request that the Board Acquisitions and Disposals Committee (BADC) approve that:

   1.1 Transnet re-incorporate Supplier Development (SD) as a threshold or pre-qualification criterion in its evaluation methodology;

   1.2 Transnet adheres strictly to the allocation of 10 or 20 points for preference. Consequently, Transnet should not incorporate Further Recognition Criteria (FRC) or minimum B-BBEE levels as a threshold. Furthermore, Transnet should not make use of set asides in its tendering processes; and

   1.3 at contract negotiation stage, where appropriate, Transnet request preferred bidders to submit a B-BBEE improvement plan (FRC - Future) as to how they will improve their B-BBEE status over the contract period.

BACKGROUND:

2. On 7 December 2011, the Minister of Finance exempted Transnet from the application of the PPPFA and its regulations for a period of 12 months. This period of exemption expired on 7 December 2012. Consequently, as from 7 December 2012, Transnet is required to adhere strictly to the PPPFA and its regulations.

3. Transnet has explored various options to include SD and additional Empowerment criteria (e.g. FRC, minimum B-BBEE thresholds and set asides) within its tender

evaluation framework whilst still adhering to the prescripts of the PPPFA.

4. Proposals to incorporate SD, FRC, minimum B-BBEE thresholds and set asides as *inter alia* prequalification criteria were submitted to the BADC for approval in February 2013. The BADC approved the approach subject to a legal opinion from senior counsel on the issue.

5. To this end, Transnet's attorneys have instructed Adv Vas Soni SC to provide it with a legal opinion, which was furnished on 12 March 2013.

6. Copies of the instructions to counsel as well as of counsel's opinion are attached as Annexure A and Annexure B respectively.

DISCUSSION:

7. In summary, counsel has advised as follows:

   7.1 Although the PPPFA regulations permit thresholds for functionality and local content, the regulations do not expressly state that these are the only thresholds that may be applied, nor is such a limitation necessarily implied by the regulations. Section 217(1) of the Constitution allows Transnet to develop and implement a procurement system that must be fair, equitable, transparent, competitive and cost effective. However, section 217(1) is not prescriptive about the elements that must be included in the evaluation methodology. Provided that Transnet's procurement system meets the standards of fairness, etc the inclusion of other factors (e.g. other thresholds) will not be at odds with the statutory scheme. Additionally, there must be valid justification for the inclusion of the additional thresholds. Consequently, SD may be used as a threshold in Transnet's tender evaluation process. SD will only be utilised as a threshold where market analysis justifies it.

   7.2 Although not expressly addressed by the opinion, by implication Transnet is not prevented from incorporating SD as a prequalification criterion when the market analysis indicates that it is not viable to include SD as a threshold. Where SD is used a prequalification criterion, bidders will be requested to provide a commitment that the monetary value of all SD initiatives to be undertaken by them will not be less than a certain stipulated percentage of the contract value e.g. bidders may be asked to provide an undertaking that no less that 20% of contract value will be spent on SD initiatives. Bidders failing to provide this undertaking will be excluded from the bid process, whilst bidders who meet this requirement will be evaluated in terms of the PPPFA methodology.

   7.3 Adopting the approach of using either a threshold or a prequalification criterion for SD does have its drawbacks as once they have been met, there is no differentiator between bids with a superior SD submission and bids with an inferior submission in this regard. Although the extent to which Transnet is able to leverage its procurement spend in order to accelerate SD is somewhat limited by the PPPFA evaluation framework, Transnet is still

able to obtain significant value through the proposed model. Bidders will still be required to commit to SD either by way of a threshold or a prequalification criterion. Furthermore, the inclusion of Local Content and Production in designated sectors as prescribed by the PPPFA Regulations also serves to promote the objectives of SD and economic growth.

7.4 In terms of section 217(2) and (3) of the Constitution, if an organ of state awards tenders on the basis of preference or takes steps to protect or advance previously disadvantaged persons, it may do so only in terms of a policy that conforms with the framework prescribed in the PPPFA. Consequently, FRC and minimum B-BBEE levels may not be used as a threshold. The statutory scheme allows for the legacy of disadvantage to be dealt with by way of preferences and not to be used as basis to exclude other bidders. Similarly, the statutory scheme does not provide for set asides.

7.5 FRC and minimum B-BBEE levels may therefore not be included in the evaluation methodology either as thresholds, prequalification criteria or weighted evaluation criteria. However, although not dealt with in the opinion, it is nevertheless recommended that at contract negotiation stage, where appropriate, Transnet request preferred bidders to submit a B-BBEE improvement plan (FRC Future) as to how they will improve their B-BBEE status over the contract period.

7.6 Therefore, Transnet will not be able to do more than the statutory regime allows for in terms of preferences. By implication Transnet will not be able to target transformation and empowerment particularly with regard to black owned companies, black women owned companies, companies owned by people with disabilities or youth owned companies. The targets that have been established with regard to procurement with such entities will therefore be difficult to achieve.

8. The proposed Transnet evaluation methodology is attached as Annexure C.

FINANCIAL IMPLICATIONS:

9. Not applicable.

BUDGET IMPLICATIONS:

10. Not applicable.

RECOMMENDATION:

11. It is recommended that the BADC approve that:

11.1 Transnet re-incorporate SD as a threshold or prequalification criterion in its evaluation methodology;

11.2 Transnet adheres strictly to the allocation of 10 or 20 points for preference. Consequently, Transnet should not incorporate FRC or minimum B-BBEE levels as a threshold. Furthermore, Transnet should not make use of set asides in its tendering processes; and

11.3 at contract negotiation stage, where appropriate, Transnet request preferred bidders to submit a B-BBEE improvement plan (FRC - Future) as to how they will improve their B-BBEE status over the contract period.

COMPILED BY

Peter Volmink
Executive Manager: Governance, ISCM
Date: 12 March 2013

RECOMMENDED/~~NOT RECOMMENDED~~

Garry Pita
Group Chief Supply Chain Officer
Date: 12/03/13

RECOMMENDED/~~NOT RECOMMENDED~~

Nkuli Mabandla
Group Executive: Legal Services
Date: 14 March 2013

RECOMMENDED/~~NOT RECOMMENDED~~

Anoj Singh
Group Chief Financial Officer
Date: 4/03/13

RECOMMENDED/~~NOT RECOMMENDED~~

Acting **Brian Molefe** T Molefe
Group Chief Executive
Date: 20/03/2013

Appendix 20 542

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MEMORANDUM

To: The Board Acquisitions and Disposals Committee

From: Brian Molefe, Group Chief Executive Officer
Anoj Singh, Group Chief Financial Officer
Garry Pita, Group Chief Supply Chain Officer

SUBJECT: UPDATE ON THE ACQUISITION OF THE 465 NEW DIESEL LOCOMOTIVES AND 599 NEW DUAL VOLTAGE ELECTRIC LOCOMOTIVES FOR THE GENERAL FREIGHT BUSINESS (GFB)

PURPOSE:

1. The aim of this submission is to:
   - provide the Board Acquisitions and Disposals Committee (BADC) with the current status on the acquisition of the 1064 Locomotives being the 465 Diesel locomotives (Diesels) and 599 Electric locomotives (Electrics).

BACKGROUND:

2. On April 25th, 2012, the Transnet Board approved the sourcing strategy to be followed for the acquisition of the 1064 Locomotives. The RFPs were scheduled to go out to the market on the 14th of May 2012 and close in July 2012. Transnet Freight Rail (TFR) who is the custodian of the process, sent the draft RFPs to Group Supply Chain Management on 23rd of April 2012 for review.

3. The draft RFPs were circulated to Group Finance, Tax, Governance, Treasury, Insurance, Legal and Supply Chain for commenting. A consolidated review meeting to discuss and workshop the RFP was held on the 25th of April 2012. The draft RFPs incorporating all the comments from all the relevant group functions were sent to TFR on the 26th of April 2012 for incorporation and consideration.

4. The draft RFPs were received back from TFR on the 5th of June 2012 with amended comments and additional changes. A follow-up RFP review meeting for the RFPs with representation by the Group Supply Chain, Finance, Tax, Legal functions, was held on the 8th of June 2012. The meeting identified additional information which was required to be incorporated into the RFPs. A combined review by TFR and Group Supply Chain function took place on the 11th of June 2012 to consolidate and finalize all changes to the RFPs.

5. TFR then went through a process of evaluating the procurement process for the 95 Locomotives (which is currently in bid evaluation phase), lessons learnt from the process have been incorporated in the RFPs. TFR submitted the final RFPs to Group Supply

Chain, on the 11h of July 2012 for final review. The Group Chief Finance Officer reviewed the draft RFP's (Electric and Diesel) and made comments and recommendations.

6. The Group Supply Chain team reviewed both RFP's (including annexures referenced in the document) and made the required changes, as well as addressing issues raised by the Group Chief Finance Officer. Group Supply Chain forwarded the final updated RFPs to TFR on the 12th of July 2012 with all tracked changes for updating. Approval for the placement of the advert was received from the Group Chief Executive on 11th July 2012 and the advert was issued to the market on Sunday, 15th July 2012 stating that the RFPs would be issued to the market on Monday, 23rd July 2012.

DISCUSSION:

7. On 16 July 2012, National Treasury (NT) issued an Instruction Note regarding the "Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock", refer to Instruction Note attached. The following aspects of the Instruction Note are highlighted:

    - It prescribes different minimum thresholds for diesel and electric locomotives. The Local Content (LC) threshold for diesel locomotives is 55% and the threshold for electric locomotives is 60%. Also, certain minimum thresholds are prescribed for various components or activities related to the locomotives;
    - It stipulates that amendments to the stipulated minimum threshold for LC are not allowed;
    - It prescribes that bids which pass the minimum stipulated threshold for LC must be evaluated in accordance with the 80/20 or 90/10 preference point system prescribed in the Preferential Procurement Regulations, 2011;
    - It prescribes that the evaluation of functionality must be conducted in accordance with regulation 4 of the Preferential Procurement regulations, 2011.

8. On 17 July 2012, ISCM met with officials from NT to understand the implications of the Instruction Note specifically for the RFPs (Diesels and Electrics) which are scheduled to be issued to the market on Monday, the 23rd July 2012. In particular, clarity was sought on the following aspects:

    - Whether Transnet was required to apply the 80/20 or 90/10 principle despite the exemption from most of the PPPFA regulations which the Minister of Finance granted to Schedule 2 entities on 7 December 2011. (it will be recalled that Transnet sought exemption from the PPPFA regulations on the grounds that the current regulations do not enable Transnet to give effect to the objectives of the New Growth Path or to follow a more robust approach to empowerment);
    - Whether Transnet could include Further Recognition Criteria (FRC) current or future in the RFPs;
    - Whether Transnet could apply its standard evaluation methodology during stage 1 of the tender process i.e. to include a threshold for SD/BBBEE in addition to the thresholds for LC and Quality.

9. NT responded to these issues raised as follows:

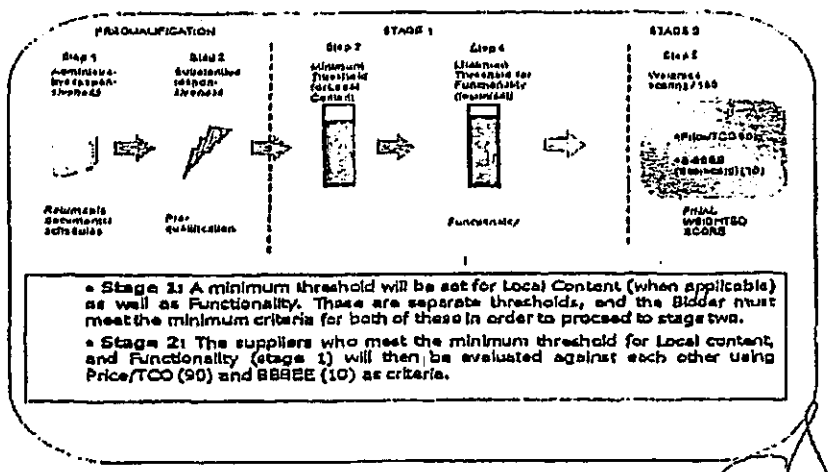
- The Local Content (LC) threshold for diesel locomotives is 55% and the threshold for electric locomotives is 60% and this should not be deviated from;
- The exemption granted by the Minister on 7 December 2011 still applies in respect of non-designated sectors. However, in respect of designated sectors (e.g. rolling stock), Transnet is required to follow the prescripts of the Instruction Note and apply the 80/20 and 90/10 principle;
- FRC should not be included in the evaluation of preference since preference must be scored strictly in accordance with the BBBEE scorecard;
- The threshold for SD/BBBEE should not be included during the first stage. The only thresholds that should be followed are in respect of LC and Quality.

IMPLICATIONS FOR THE LOCOMOTIVE TENDERS:

10. In light of the NT Instruction Note and the further clarification sought from NT, it is clear that the current locomotive RFPs needed to be amended to conform to the Practice Note. Preference will have to be scored strictly in accordance with the 90/10 principle (80/20 applies only to tenders <R1m). Preference will have to be scored based only on the BBBEE scorecard. FRC should not be included in the evaluation of preference and have therefore been excluded.

11. The SD/BBBEE threshold should not form part of stage 1. The RFPs must indicate that the only applicable thresholds are in respect of LC and Quality. Furthermore, SD should be taken out of stage 2 (final weighted scoring). The final weighted scoring must be as follows: Price (90%) and BBBEE (10%). Consequently, SD cannot feature in the evaluation of the locomotive tenders at all. The RFPs can however still require bidders to submit their SD proposals. These proposals could be used to negotiate SD value during the post tender negotiation phase of the tender.

12. The evaluation methodology that must now be followed is depicted in the diagram below.



NEXT STEPS (WAY FORWARD):

13. As a result of the NT Instruction Note, and based on the guidance given by the Group Chief executive, Group Chief Financial Officer and Chief Executive: Transnet Freight Rail, the RFPs have been amended in line with the NT Instruction Note that will be issued on Monday 23 July 2012. Any delays in the issuing of the RFPs will compromise the tight time frames for the achievement of MDS objectives.

14. The RFPs will be issued in parts. Part 1 of the RFP will be issued on Monday, 23 July 2012 and contains all the information required by the NT Instruction Note including the following information:

    - General information;
    - Technical information;
    - B-BBEE scorecard;
    - Supplier Development. The RFPs still require bidders to submit their SD proposals. These proposals will be used to negotiate SD value during the post tender negotiation phase of the tender;
    - Financial proposal and;
    - Administrative information e.g. pertaining to closing dates, briefing sessions, returnable documents etc.

    Subsequent parts will be issued at a later stage(s) and will address aspects such as evaluation criteria, evaluation methodology, weightings and supply agreement, Financial Total Cost of Ownership (TCO) Model, inter alia.

15. Whilst the RFP is in the market, Transnet will approach the NT (with the support of the Department of Public Enterprises) to obtain full exemption from all the PPPFA regulations as a matter of urgency. Should such exemption be granted, Transnet will issue an addendum to the RFP to align it with the Board approved strategy.

FINANCIAL IMPLICATIONS:

16. None

BUDGET IMPLICATIONS:

17. None

APPROVALS AND DELEGATIONS:

18. The Group Chief Executive was delegated authority by the Board of Directors to approve the RFPs in relation to the 465 Diesel and 599 Electric locomotives and authorised to issue to the market.

RECOMMENDATION:

19. The aim of the submission is to provide the (BADC) with the current status on the acquisition of the 1064 Locomotives and is for noting only.

COMPILED BY:

Garry Pita
Group Chief Supply Chain Officer
Date: 23/07/12

RECOMMENDED / ~~NOT RECOMMENDED~~:

Anoj Singh
Group Chief Financial Officer
Date: 23/07/12

APPROVED / NOT APPROVED BY:

Brian Molefe
Group Chief Executive Officer
Date:

Appendix 21

MINISTER
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Mr Mafika Mkwanazi
Chairperson: Transnet SOC Limited
P. O Box 72501
Parkview
2122

Tel: 011 308 2309
Fax: 011 308 2315

Dear Colleague

Re: The Preferential Procurement Policy Framework Act and the Locomotive Fleet Procurement

There are a number of unresolved issues pertaining to the extension of the exemption to State Owned Companies (SOC) from Regulations 2(2); 3 to 8; 10; 11(1) to (9); 11(11) to (13); 12 – 13 as issued in Government Notice No R1027 of 7 December 2011 of the Preferential Procurement Policy Framework Act. I believe that these issues can have a material impact on the ability of Transnet to extract optimal commercial, developmental and transformational value from strategic procurements.

Given this situation, I am personally engaging with the Minister of Finance to resolve these issues and am confident we will come to a mutually agreeable outcome. In the meantime, Transnet should continue to procure as if the extension to the exemption is in place. In addition, no communication should take place between the SOC and National Treasury pertaining to the PPPFA until the situation has been resolved. Should any queries be directed to the SOC from the National Treasury regarding the PPPFA, please refer the National Treasury to my office.

I am aware that Transnet is anxious to proceed with the procurement of the procurement of the 1064 locomotives. With regards to the Instruction Note relating to the "Invitation and Evaluation of Bids Based on a Stipulated Minimum Threshold for Local Production and Content for the Rail Rolling Stock Sector" Transnet should procure taking the designation thresholds into account. However, Transnet should not feel constrained by Section 5.1.2 of the Instruction Note and should rather establish an evaluation framework that provides reasonable incentives to suppliers to support our industrialisation and transformation objectives. Should my agreement with the Minister of Finance require a change to this framework, Transnet can alert the bidders at that stage.

Yours sincerely

MALUSI GIGABA, MP
MINISTER OF PUBLIC ENTERPRISES
DATE: 2012/12/07

Cc: Mr Brian Molefe
Group Chief Executive Officer
Transnet (SOC) Limited
Tel: 011 308 2309
Fax: 011 308 2315

Appendix 22

549

TRANSNET

Mafika Mkwanazi Chairman

Honourable Malusi Gigaba, MP
Minister of Public Enterprises
Private Bag X15
HATFIELD
0028

Fax: 012-431-1039

Honourable Minister Gigaba

THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT

The abovementioned matter and your letter dated 07 December 2012 has reference (refer annexure A).

Transnet has complied with your request regarding the issuing of the 1064 locomotive tenders, and has aligned both RFPs with your instruction as outlined in the above dated letter, relating to the invitation and evaluation of bids based on a stipulated minimum threshold for local production and content for the rail rolling stock sector. We, therefore, hope for a resolution with regards to the PPPFA exemption, before the locomotive fleet tenders can be closed. We anticipate to close both tenders on the 28th of February 2013.

It is our legal interpretation that, pending the outcome of your bilateral with the Minister of Finance it is prudent for Transnet to comply with the PPPFA regulations given that no formal exemption has been granted at date. This is in order to mitigate against the risk of challenge by potential bidders and the risk of irregular expenditure in terms of the Public Finance Management Act. We request from the Honorable Minister, to continue procuring generally on all other procurement events outside of the 1064 locomotives, strictly in line with the Government Notice No R1027 of 7 December 2011.

Mafika Mkwanazi Chairman

TRANSNET

We therefore request that the Honorable Minister endeavor to advise us of the outcome of the discussions with the Minister of Finance on the locomotive procurement by 1 February 2013, so that any required award is in line with the agreement then pertaining.

We trust that the Minister will provide clarity in due course on all other procurement events generally to ensure that Transnet is not detrimentally affected in its transformative efforts by having to comply strictly within the PPPFA for these transactions. Naturally, we are very supportive of all the Minister's efforts to date aimed at ensuring that our business proceeds smoothly despite the expiry of the exemption.

We await your further advices.

Yours sincerely

[signature]

Mafika Mkwanazi
Chairman
Date: 28/12/2012

Cc: Mr. Brian Molefe, Group Chief Executive
Mr. Siyabonga Gama, Acting Group Chief Executive
Mr. Anoj Singh, Group Chief Financial Officer
Ms. Nkuli Mabandla, Group Executive: Legal Services

Appendix 23 551

Mafika Mkwanazi, Chairman

TRANSNET

Our Ref No: BM/ 6288

Mr Malusi Gigaba MP
Minister of Public Enterprises
Private Bag X15
HATFIELD
0028

Fax No: 012 431 .039
Per email: vuyiswa.frans@dpe.gov.za

Dear Minister Gigaba

CURRENT STATUS WITH REGARD TO THE 1064 LOCOMOTIVE TENDERS & REQUEST FOR INTERVENTION WITH REGARD TO EXEMPTION FROM THE PPPFA

We refer to the above mentioned matter.

As you are aware Transnet is presently in the process of procuring 1064 diesel and electric locomotives for the General Freight Business (GFB) which constitutes the single largest procurement of equipment in Transnet's history. The tender for the procurement of the locomotives was issued on the 23rd July 2012.

Transnet noted our correspondence relating to the application of the Preferential Procurement Policy Framework Act (PPPFA) to this acquisition, in particular the letter received on 7 December 2012. Transnet issued Part 2 of the Request for Proposals (RFPs) for the 1064 locomotives in compliance with your request, as contained in your letter dated 7 December 2012. As per your request Local Content was included as a stipulated minimum threshold but Transnet did not consider itself bound by Paragraph 5.1.2 of the Instruction Note on Rail Rolling Stock. (Paragraph 5.1.2 of the Instruction Note prescribes the application of the 90/10 preference point system based on price and B-BBEE only and makes no allowance for the inclusion of supplier development). You further indicated that you were in discussions with the Minister of Finance and should any changes to the locomotive RFPs be required, the bidders should be informed at that time.

Supplier development therefore featured in the evaluation framework as both a threshold and a weighted evaluation criterion and Further Recognition Criteria featured as a weighted evaluation criterion. Transnet informed the Minister that it issued Part 2 in conformance with his request in a letter from the Chairman's office dated 28 December 2012. However, this approach was adopted in anticipation of a favourable response to the request for exemption from the PPPFA and its regulations.

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Due to requests from a number of potential tenderers for an extension of the closing date of between 4 to 6 months as well as the large amount of queries and clarifications which were requested (approximately 400 in total), Transnet had to consider the extension of the tender closing date from 26 February 2013 to 30 April 2013. The tenders' closing date of 26 February 2013 has duly been extended to 30 April 2013. Transnet is currently working on the 2nd set of queries and clarifications received after issuing Part 2 of the RFP.

Transnet was informed that National Treasury has indicated that exemptions from the PPPFA will be considered for strategic projects on a case by case basis. National Treasury has recommended that a task team comprised of senior officials from the Departments of Public Enterprises Trade and Industry, Economic Development as well as National Treasury be constituted in order to develop a framework within which such requests for exemption may be considered. Transnet therefore wrote to you on 19 March 2013 requesting that:

1.1 the task team be constituted as a matter of urgency;
1.2 the Department of Public Enterprises takes the initiative in constituting a task team;
1.3 senior employees from Transnet be included in the task team;
1.4 the terms of reference of the task team be finalized by DPE in conjunction with Transnet and National Treasury;
1.5 the task team be instructed to develop the framework within 30 days from being constituted, and
1.6 the Minister of Finance be requested to consider Transnet's request for the exemption of Rail Rolling Stock related components as soon as the framework has been finalized, including but not limited to the 1064 locomotives, wagon bogie castings and train wheels.

Matters have, however, progressed to a point where the closing date of 30 April 2013 is fast approaching and Transnet has not yet received any confirmation with regard to the request for exemption in relation to this acquisition. Transnet does not believe that the date for submission can be extended any longer as this can materially compromise our ability to implement the Market Demand Strategy.

While Transnet is completely supportive of the Minister's position, there is a considerable concern that unless an exemption is formally granted by the Minister of Finance, the evaluation process based on the tender documents that have been issued and the subsequent award of the tender will be in conflict with the PPPFA, thus creating significant legal risk for Transnet. Failure to adhere to any aspect of the Act, its regulations and Instruction Notes could expose Transnet's bid processes to legal challenges and also result in irregular expenditure if the contracts are awarded contrary to the requirements of the PPPFA. Hence, to place the process on a sound footing, Transnet needs to either comply with the PPPFA or we require a letter from the Minister of Finance specifically exempting Transnet from the PPPFA, its regulations and the applicable Instruction Note in relation to this acquisition.

Consequently, we would like to request that you provide Transnet with an update on the status of your engagement with the Minister of Finance. We would appreciate it if this update

TRANSNET

could be provided as urgently as possible as we now need to give the suppliers a definitive framework within which the tenders will be evaluated.

We thank you once again for your assistance on this matter and eagerly await your response.

Kind regards

Mafika Mkwanazi
Chairman
Date 15/04/2008

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Dear Colleague

The Preferential Procurement Policy Framework Act (PPPFA), its Regulations and National Treasury (NT) Instruction Note on Rolling Stock and the Transnet Locomotive Fleet Procurement

I refer to your letter received on 12 December 2012 regarding the extension of the PPPFA to State Owned Companies (SOC).

I would like to assure you of my support for the stance taken by the NT on the issues related to the PPPFA contained in your letter. Your suggestion on restricting exemptions to strategic projects which needs to be addressed on a case by case basis is a pragmatic approach which needs to be explored in detail as soon as possible. I am also of the view that a coherent, robust and transparent framework needs to be applied to these case by case assessments which will create a level of certainty in a complex SOC procurement environment.

However, there is an urgent situation surrounding the Transnet Locomotive Fleet Procurement that I believe requires immediate action and resolution. This urgency emanates from the potential impact on Transnet's ability to deliver on their Corporate Plan commitments and the legal risks and challenges that Transnet will possibly be exposed to due to uncertainty for both Transnet and potential suppliers regarding the implications of NT's Instruction Note for Transnet's procurement.

In principle, I share NT's concern with the potential premium paid by Government for Supplier Development, Localisation and B-BBEE. However, I believe there are competitiveness and competition concerns associated with markets for certain components designated in the NT Instruction Note which need to be considered to avoid unintended contradictory outcomes to the objectives being pursued in NT's Instruction Note.

The DPE together with Transnet is of the view that their locomotive prices are benchmarked based on previous transactions and prevailing international pricing. Based on analysis performed by Transnet, we believe that Transnet's procurement methodology allows for the possibility to exceed the minimum local content threshold specified in the NT Instruction

Note. In this approach, it is possible to aim for up to 70% localisation for diesel locomotives with the potential price premium associated with cost of localisation being estimated to be 9.1% initially and 77% localisation for electric locomotives with the potential price premium cost of localisation being 8% initially, with a total price premium averaging out at approximately 2% in total. This percentage is calculated as the average price premium paid for the locomotives including learning curve over the course of production.

National benefits arising from the approach proposed by Transnet will result in enhanced national capability across a range of sectors resulting in multiplier benefits of localising where R1 of a locomotive is expected to have multiplier downstream benefits of 2.74 times as much (with regard for example to job creation, skills development, additional taxation, exports etc.). This comes at an average price premium of less than 2% in the 60% to 75% localisation range.

In Transnet's estimates, using multiplier data published as part of IPAP2 (2011) the benefit to the South African economy will be of the order of R68 billion approximately for an expected total premium on the 1064 locomotives of approximately R400 million resulting in a benefit to cost ratio of 170 to 1 in favour of localisation.

Furthermore the potential effect of the designation of certain components would be to entrench industry concentration or create single source suppliers. Based on analysis conducted for it, Transnet believes that the Instruction Note could create a premium of R3m to R4m per locomotive. The same analysis demonstrates that allowing OEMs some freedom to determine where localisation is applied would result in localisation price premiums of only 2% to achieve much higher levels of localisation of more than 70%.

I acknowledge that these issues merit deeper investigation. However I'm persuaded that there are substantial socio-economic and industrial development benefits that could be derived from Transnet's locomotive fleet procurement if the tender was allowed to proceed as advertised, which was done prior to the issuance of the NT's Instruction Note. I am thus hereby appealing for your support for us to let Transnet conclude this procurement process with exemption from the Instruction Note's re-instatement of the 90/10 provision of the PPPFA in SOC capital procurements.

In addition, to ensure that the procurement is effectively leveraged to achieve the broader industrial and socio-economic objectives that we both equally seek to promote, I would agree with the process suggested by yourself of having senior officials from DPE, NT, DTI and Economic Development Department consider terms and conditions for exemptions that can be applied on a case by case basis, and that can be used to monitor the current Transnet locomotive procurement process as it unfolds.

I thank you once again for your assistance on this matter and will keenly await your response.

Yours sincerely,

MR. MALUSI GIGABA, MP
MINISTER OF PUBLIC ENTERPRISES

Date: 2013/04/16

Ex parte: Transnet SOC Limited

In re: Expiry of exemption from non-compliance with PPPFA

OPINION

Introduction

1. My Consultant in this matter is Transnet SOC Limited. It seeks an Opinion on a number of issues that have been prompted by the expiry or lapse of an exemption granted to it from various provisions of the Preferential Procurement Policy Framework Act[1] PPPFA and the Regulations promulgated thereunder ("the Regulations"). The principal issue that I have been asked to address may be summarized as follows. Transnet advertised a tender on 13 July 2012, at a time when the exemption was in force. However, by the time that the exemption expired – on 7 December 2012 – the bids had not yet been evaluated. In fact, the closing date for the submission of the bids has been extended to 30 April 2013. In the circumstances, do the bids fall to be evaluated in accordance with the methodology that prevailed whilst the exemption was in force, or in terms of the methodology that has to be followed after the exemption is no longer in force. It might be mentioned that the two methodologies differ quite significantly and will in all probability produce different outcomes

[1] Act 5 of 2000

2. This Opinion will focus on dealing with the principal issue set out immediately above. But I have been asked to deal with a number of other matters that appear to arise from the expiry of the exemption. In order to do so in a meaningful way, however, it will be helpful to first summarise the background against which the issues arise. To this end, the following matters will be dealt with in turn. First, the factual background will be summarized. Second, the principles that appear to be applicable to a case such as this will be set out. Third, each of the questions that I have been asked to consider will be dealt with. Finally, I will summarise the conclusions to which I have arrived.

The factual background

3. The factual background is set out quite comprehensively in the Instruction from my attorney that accompanied my brief. It is not my intention to set out all the details contained therein. Instead, in order to keep this Opinion as short as possible I will confine what is contained herein to the more essential facts, events and developments. Those may be summarized as set out in the paragraphs immediately hereunder.

4. On 13 July 2012 Transnet advertised a tender for the purchase of 1064 locomotives: 599 electric locomotives and 465 diesel locomotives. For convenience, this will be referred to as the "1064

Locomotives Tender" or simply "the Tender". Potential bidders were informed that the tender documents would be available from 23 July 2012. Transnet had intended to issue one tender document to which there would obviously be one comprehensive response from each bidder. However, that did not happen. Instead, on 23 July 2012 Transnet issued only Part 1 of the tender for the acquisition of 599 electric locomotives and Part 1 of a tender for the acquisition of 465 diesel locomotives. Transnet's reason for issuing only Part 1 of the tender documents may be summarized as set out in the paragraphs immediately hereunder

5. First, at the time that the Tender was advertised and Part 1 was issued, Transnet was exempted by the Minister of Finance from complying with most of the provisions of the PPPFA Regulations: Transnet was required to comply only with the provisions relating to local content' [Regulations 9 and 11(10)] and tax clearance [Regulation 14]. The period of exemption was 7 December 2011 to 7 December 2012. Part 1 of the Tender dealt with issues such as the required thresholds for local content, pricing, technical specifications and general information. However, Part 1 did not deal with such issues as the "*evaluation methodology, evaluation criteria, weightings and supply agreement, or the Financial Total Cost of Ownership (TCO) Model*". In effect, it did not deal with the methodology to be used to evaluate bids and to select the winning bidder(s). In particular, Part 1 did not explain how aspects such as empowerment or Supplier Development (SD) criteria would be

considered during the evaluation process. These issues were to be dealt with in Part 2 of the RFP.

6. Second, the following perhaps needs to be recorded at this stage. Before the Tender was advertised, Transnet was aware that the Department of Public Enterprises and the Department of Trade and Industry were to issue guidelines on the local content for the 1064 locomotives. This emerges from a Memorandum to the Group Chief Executive Officer in which approval was sought for the process and strategy for the procurement of the 1064 locomotives.

7. Third, on 16 July 2012, three days after the Tender had been advertised but seven days before the Tender was to be issued, National Treasury issued the anticipated Instruction Note pertaining to the invitation and evaluation of bids based on a stipulated minimum threshold for local production and content for the rail rolling stock sector. This Instruction Note is applicable to a wide range of public bodies, including entities listed in Schedule 2 of the Public Finance Management Act ("PFMA"), such as Transnet. The Instruction Note prescribed certain thresholds for local content for classes of rolling stock as well as for components and activities.

8. Fourth, the Instruction Note also prescribed that a two-stage evaluation process be followed in which local content and technical aspects would be evaluated during stage 1 and price and BBBEE evaluated during stage 2 using the 80/20 and 90/10 preference

point system. This latter aspect created considerable uncertainty since Transnet was specifically exempted from complying with the Regulations relating to price and BBBEE, which prescribed the above mentioned two-stage stage process. Indeed, the procurement strategy that the Transnet Board had approved for the Tender indicated that in addition to meeting the anticipated minimum threshold for local content and technical criteria, bidders were also required to meet a minimum threshold for SD and BBBEE. Furthermore, bidders who passed the various thresholds were to be evaluated on the basis of Price (60%), BBBEE scorecard as well as Further Recognition Criteria (FRC) 20% and SD (20%).

9. Fifth, there thus appeared to be a marked difference between the evaluation methodology that had been approved by the Board and that set out in the Instruction Note. In light of this difference, Transnet decided to split the tender document and only issue Part 1 on 23 July 2012 and issue the second part only after it had taken legal advice and consulted with relevant stakeholders.

10. The foregoing are the principal reasons for splitting the tender into two parts. In the paragraphs hereunder I summarise the developments that took place thereafter.

11. Insofar as the main issue that I have been asked to deal with is concerned, the advice from Transnet's attorneys was to the following effect. Transnet could adopt the view that the Instruction

Note did not undermine the exemption that had been issued by the Minister of Finance on 7 December 2011: the Instruction Note should rather be read subject to the exemption. This meant, Transnet was advised, that those provisions of the Instruction Note that were not in accord with what could validly be done by Transnet under the exemption would be ineffective until the exemption had expired. Transnet was also advised to apply to the Minister of Finance for an exemption, as contemplated in section 3 of the PPPFA.

12. In August 2012 Transnet met with officials from National Treasury to discuss Transnet's preferred method of evaluation, which was quite different to the methodology prescribed in the PPPFA and the Regulations. Thereafter Transnet requested the Minister of Public Enterprises to approach the Minister of Finance on its behalf to exempt Transnet from the PPPFA and the Regulations. In the alternative, the request was that certain strategic acquisitions, including that for the 1064 locomotives, be exempted from the provisions PPPFA and the Regulations.

13. However the Minister of Finance has not yet granted Transnet the exemption.

14. In the meantime however the exemption lapsed on 7 December 2012. The result is that Transnet has since been required to comply with provisions of the PPPFA and the Regulations.

15. However, on 7 December 2012, the Minister of Public Enterprises in a written communication informed Transnet as follows:

- In relation to the 1064 locomotive tender, Transnet should not consider itself bound by the provisions of the Instruction Note, which as has already been pointed out prescribed the application of the 80/20 and 90/10 preference point system. In addition, Transnet was free to include SD in its evaluation methodology.

- In this regard, the Minister said: "Transnet should continue to procure as if the extension to the exemption is in place." He went on to say that Transnet "should not feel constrained by section 5.1.2 of the Instruction Note" (which specifically requires that the 90/10 and 80/20 preference points system to be used).

- The Minister also informed Transnet that he was in discussion with the Minister of Finance and should any changes to the 1064 locomotive tender be required, bidders should be informed at that point in time.

16. Transnet has to date not been informed about the outcome of the discussions between the two Ministers.

17. Part 2 of the RFP was issued only on 11 December 2012. Acting on what the Minister of Public Enterprises had informed it on 7 December 1012, Transnet did not in Part 2 reflect the 90/10 principle as stipulated in the PPPFA. Instead, it indicated that the following evaluation methodology would be used:

- a local content threshold of 60% and 55% was prescribed for electric and diesel locomotives, respectively;
- a threshold of 40% was prescribed for SD and BBBEE;
- a threshold of 70% was prescribed for technical; and
- bidders who passed all these thresholds would be evaluated on the basis of price (60%), BBBEE scorecard /FRC (20%) and SD (20%).

18. Transnet explains that it chose that evaluation methodology in anticipation of a favourable response to its request for exemption from the PPPFA and the Regulations. However, as already pointed out, Transnet has not yet been informed of the outcome of application for the exemption.

19. Notwithstanding the foregoing, Transnet has taken precautionary measures to protect its rights and interests should it be found that the PPPFA and Regulations are binding. For example, a provision in Part 1 of the Tender document contained a reservation of the general right to amend the tender document. In addition, specific mention was made of Transnet's intention to seek an exemption

from the Minister of Finance but reserving its right to evaluate bids in accordance with Instructions issued by National Treasury. Thereafter, in Part 2 of the Tender document a clause was inserted reserving Transnet's right to evaluate the tenders in accordance with the PPPFA and the Regulations, should it be required to do so.

20. What emerges from the foregoing is that in finalising the terms of Part 2 of the Tender document, Transnet acted upon what had been conveyed to it by the Minister of Public Enterprises. However, it has not yet received any positive feedback from him.

21. Transnet now wishes to know how it may proceed in respect of the tender for the acquisition of the 1064 locomotives. As I have already noted, it has requested that I address a number of specific issues, which have been detailed in the Instructions of my attorney. I should point out that the answer to each of those questions is dependent, to a greater or lesser extent, on the answer to the decisive issue in this matter, which I have already set out above in somewhat general terms. In the circumstances, before turning to a consideration of each of the specific questions that I have been requested to answer, against the backdrop of the factual matrix summarized above I will set out what that broad question is and then attempt to furnish an answer to it. Thereafter I will deal with the specific questions.

The defining issue

22. In my respectful view the defining issue that arises in this matter may be pertinently stated as follows. Does the expiry of the exemption on 7 December 2012, and the fact that it has not been renewed up to now, mean that the evaluation methodology set out in the PPPFA and the Regulations is now binding on Transnet; or is the position rather that Transnet is required, or at least entitled, to evaluate the bids as originally contemplated when the tender was advertised, that is, in terms of the methodology it has used up to 7 December 2012.

23. I have not been able to find a case that is on point. In the circumstances, it is necessary to consider what legal principles are likely to apply in a situation such as this, by considering what principles govern analogous situations. In order to determine what may be regarded as an analogous situation it will be helpful to begin by highlighting the essential and decisive issues that have arisen in this matter. They appear to be those summarized in the paragraphs immediately hereunder.

24. First, on 7 December 2011, Transnet was granted an exemption from complying with the provisions of the PPPFA and the Regulations that are in issue in this matter. That exemption was to endure until 7 December 2012. During the period of the exemption,

Transnet, as it was entitled to do, used an evaluation methodology that was quite different from that laid down in the PPPFA and the Regulations. (For convenience, I will refer to this as "the Transnet evaluation methodology" or "Transnet's internal methodology".)

25. Second, whilst the exemption was in force, Transnet advertised the Tender for the acquisition of the 1064 locomotives. At that stage, it proposed to use the Transnet evaluation methodology. In any case, in terms of s 217(1) of the Constitution, that is the methodology that it would have had to comply with.

26. Third, the issuance of the Instruction Note on 16 July 2012 raised questions about the extent to which the evaluation methodology prescribed therein was binding on Transnet. As a result, Transnet decided to issue the tender document in two parts. Part 1 was issued prior to the expiry of the exemption. However, Part 2 was issued after the expiry of the exemption.

27. It is necessary now to consider what legal principles are applicable in these circumstances.

Applicable legal principles

28. It would be helpful to begin by first ascertaining what the effect of the exemption that was granted to Transnet is. According to Black's Law Dictionary "to be exempted" means: "[to be] free or released from a duty or liability to which others are held" and "exemption" means: "freedom from a duty, liability or other

requirement". And, according to Jovitt's Dictionary of English Law, exemption means: "immunity; freedom from imposts; a privilege to be free from service or appearance".

29. In the circumstances, the effect of the exemption and its lapse may be said to be as follows. From 7 December 2011, Transnet was free or released from compliance with most of the PPPFA Regulations. However, as from 8 December 2012, it is required to comply with the PPPFA Regulations.

30. In my respectful view, considering the matter from Transnet's perspective, the position would be no different had a new statutory regime been put in place only on 8 December 2012. Had the PPPFA and the Regulations come into operation only on 8 December 2012, the approach to such a development is quite clear and is set out in the paragraphs hereunder. In my view that approach applies with equal force to the situation in which Transnet finds itself after the expiry of the exemption.

31. It is necessary now to consider what the position is where there has been a change in the statutory regime governing a particular issue.

32. The first rule in this regard is quite clear. It may be stated as follows. Statutes are construed to operate prospectively only unless the legislative intent that they be given retrospective or retroactive operation appears from the express language of the

statute, or from the clear purpose of the enactment or by necessary or unavoidable implication.[2] In the position in which Transnet finds itself, it is the expiry of the exemption that triggers the change in the regulatory regime to which Transnet is made subject. There is no suggestion or implication, let alone express language or clear purpose, that the new statutory regime is to apply retrospectively in this case. In fact, as appears from what is set out hereunder, the force of this rule is somewhat reinforced by a number of surrounding circumstances.

33. The second rule is that the general circumstance is that statutes regulate future conduct and are construed as operating only on cases or facts that came into operation after they were passed.[3] There is nothing to indicate that the general circumstance ought not to apply in this case.

34. In my respectful view, based on these two rules, Transnet is at least at liberty to apply to the evaluation of the tender for the 1064 locomotives the Transnet evaluation methodology. It may even be that it is required to apply the Transnet evaluation methodology when choosing the successful tenderer or tenderers.

35. Having set out what, in my respectful view, the governing rules are, I must also add the following. The rules set out above do not apply where the legislation in question deals with procedural matters,

[2] *Adampol (Pty) Ltd v Administrator, Transvaal* 1989 (3) SA 800
[3] *Principal Immigration Officer v Bhula* 1931 AD 323, at 327

which are taken to be retrospectively operative.[4] However, a "procedural amendment" is one that deals with the process of litigation. If it does not, it is substantive.[5]

36. In my respectful view, the change in the regulatory regime that was triggered by the expiry of the exemption is one of substance, not procedure. It involves the adjudication process, which is clearly not simply procedural. In the circumstances, the rules against retrospectivity and the governance of only subsequent matters apply.

37. Having dealt with the main issue that I have been asked to consider, I turn now to address the specific questions that been posed. As I have pointed out, those questions concern or revolve around the main issue and ask that I take into account certain specific matters. It will in the circumstances be helpful to consider each of them, even if this involves a certain amount of repetition, as they cover most concerns that appear to have arisen.

Is Transnet entitled to evaluate the tenders for the 1064 locomotives on the basis of its internal policy that applied at the time the bid was advertised?

38. As can be gathered from what has been set out above, I am of the view that Transnet is entitled to apply the Transnet evaluation methodology in determining who the successful tenderer or

[4] *Curtis v Johannesburg Municipality* 1906 TS 308, at 312; *Industrial Council for the Furniture Manufacturing Industry (Natal) v Minister of Manpower* 1984 (2) SA 238 (D) at 242
[5] *S v Helta* 1987 (1) SA 311 (SWA) 316

tenderers should be. And, as I have pointed out, the position may well be that, having regard to the fact that the tender was advertised on 13 July 2012, properly construed, the expiry of the exemption only on 7 December 2012 may well require that Transnet apply the Transnet evaluation methodology to the evaluation of the Tender for the 1064 locomotives.

39. I have been asked, in dealing with the question under consideration, to specifically consider the following issue. At the time that the tender was advertised, Transnet's internal procurement rules allowed for the following: inclusion of SD and FRC both as a threshold and as weighted evaluation criteria; deviation from the 90/10 and 80/20 principle stipulated in the PPPFA; and the evaluation of tenders on the basis of price, SD and BBBEE/FRC in various ratios which could differ from one tender to the next, but typically the ratio would be 60:20:20.

40. In my respectful view, provided that the evaluation methodology is not inconsistent with s 217(1), Transnet is still entitled to apply it to the tender for the acquisition of the 1064 locomotives.

Part 1 of the RFP was issued at a time when the exemption applied. However, Part 2 was issued only after the exemption had expired. Was Transnet not accordingly obliged to issue Part 2 in accordance with the position that obtained after 7 December 2012, that is, in accordance with the methodology

prescribed by the PPPFA and the Regulations, which have been applicable to Transnet from 8 December 2012?

41. Before essaying an answer to the question, I must point out that the following matters have been brought to my attention in respect of the contents of the two parts of the Tender. Whilst a number of key evaluation matters, for example relating to local content threshold and SD initiatives, appeared in Part 1, it was only in Part 2 that the details of the evaluation were fully set out, although they were in line with Transnet's evaluation methodology as at the time that the tender was advertised, the procurement strategy approved by its Board and the advice of the Minister of Public Enterprises.

42. In principle, it appears to me that the correct position is as follows. There was only tender. It was advertised on 13 July 2012, at a time when the exemption was in full force and effect. The fact that the tender document was split into two parts cannot be decisive: both parts related to the same tender. In my view, the fact that Part 2 was issued only after the exemption had expired ought not to change the course of what had already been put into motion and which was to be dealt with in accordance with Transnet's then prevailing evaluation methodology.

43. In answering the question under consideration I have also been asked to bear in mind the provisions of s 4 of the PPPFA. Section 4, which is termed a "transitional provision", provides:

"Any procurement process implemented under a preferential procurement policy where the invitation to tender was advertised before the commencement of this Act, must be finalized as if this Act had not come into operation."

44. It was pointed out above that the general circumstance is that statutes regulate future conduct and are construed as operating only on cases or facts that came into operation after they were passed. In my respectful view, s 4 of the PPPFA simply confirms that that rule applies to tenders that had been advertised before the PPPFA came into operation. Although not strictly applicable in the circumstances at hand, the provisions of section 4 suggest that the legislature expressly recognized the validity of the rule against the retrospective operation of the PPPFA in respect of tenders that had been advertised before the PPPFA came into operation. This may well be an added reason for applying that rule in the circumstances of the Tender for the 1064 locomotives.

45. My attention has also been drawn to the provisions of paragraph 21 of the Implementation Guide to the PPPFA Regulations, 2011. It reads as follows:

"If a bid was advertised/invited in terms of the evaluation criteria prescribed in the PPPFA regulations, 200 (prior to the date of coming into effect of the PPPFA regulations, 2011) but will only be evaluated and awarded after the date of coming into effect of the PPPFA regulations, 2011, the bid must be evaluated

and awarded in terms of the evaluation criteria prescribed in the PPPFA regulations, 2001 and in terms of the conditions contained in the bid documents."

46. The observations that I have made in respect of section 4 of the PPPFA are equally applicable to the provisions of paragraph 21 of the Implementation Guide.

47. However, I have been asked to also consider the implications of the provisions of paragraph 21.2 of the Implementation Guide, which provides:

"Such bid must be evaluated and awarded as soon as possible but not later than the initial expiry period of the bid. The extension of the validity period of such a bid must not be allowed."

48. It would appear that paragraph 21.2 is strictly speaking not applicable to the 1064 locomotive tender because that tender was not advertised in terms of the 2001 Regulations. But the following concern has been raised. The initial closing date of the bid was 16 October 2012. However, when Part 2 was issued, the closing date was extended to 26 February 2013. Thereafter, for various reasons, including the large number of requests for clarification received from bidders, the closing date of the tenders was extended to 30 April 2013. The question then is whether, by extending the closing date in spite of what was said in the Implementation Guide, Transnet is still entitled to evaluate the bids in accordance with its own internal policy.

49. Insofar as the extent to which the Instruction Guide is binding on Transnet, account must be taken of the following. Only Regulation 9, 11(1) and 14 of the 2011 Regulations apply to Transnet. The provisions of the Instruction Guide that do not relate to these regulations consequently are not binding on Transnet. In view of the fact that the 2001 Regulations were not binding on Transnet, it does not appear that Paragraph 21.2 is binding. However, even if it is, no consequence appears to be set out for non-compliance with the guideline. Indeed, I am not sure that a guideline can visit with invalidity an act that is not strictly speaking rendered invalid by an Act or a Regulation. In the circumstance, at worst for Transnet it can be accused of not complying with a guideline that has been laid down. But such non-compliance does not have the effect of extinguishing its right to evaluate the bids in accordance with its own internal policy.

Is it the position that the Instruction Note was not applicable to Transnet until the exemption expired?

50. In their opinion to Transnet, my learned attorneys expressed the view that the Instruction Note was not applicable until the period of exemption had ended. I am in agreement with that view expressed by my learned attorneys.

Conclusion

51. Insofar as the specific matters that I have been asked to deal are concerned, my views may be summarized as set out hereunder.

52. In view of the fact that there was only tender, which was advertised during the period that the exemption was in force, Transnet would be entitled to apply its own internal evaluation methodology. This entitlement has not been negatived or limited by any of the following events or developments: the fact that the exemption expired before Part 2 of the tender was issued; the fact that the evaluation methodology was only set out in part 2 of the tender, which was issued after the exemption had expired; or that the closing date was extended.

53. Should there be any further matters that need to be addressed, I will gladly deal with them.

V Soni SC

19 April 2013

Appendix 26

MINISTER: FINANCE
REPUBLIC OF SOUTH AFRICA

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Ref. M3/15/21 (1149/13)

Mr Malusi Gigaba, MP
Minister of Public Enterprises
Private Bag X15
HATFIELD
0028

Dear Malusi,

THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT, 2000 (PPPFA), ITS REGULATIONS AND NATIONAL TREASURY INSTRUCTION NOTE ON ROLLING STOCK AND THE TRANSNET LOCOMOTIVE FLEET PROCUREMENT

I refer to your letter dated 16 April 2013 regarding the above mentioned matter.

I concur with your view to leverage on this procurement to derive substantial socio-economic and industrial development objectives.

On scrutiny of the Transnet tender document published in July 2012, it is noted that the tender was structured in a manner that is not in conflict with the National Treasury's instruction note issued in July 2012.

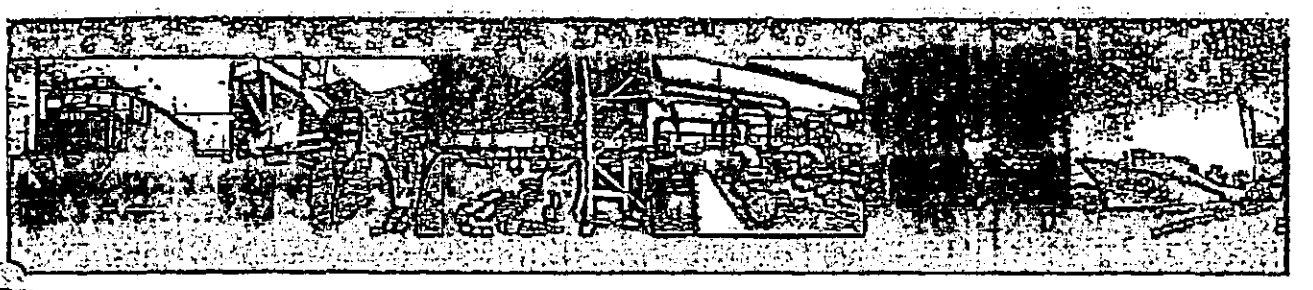
In light of the above, I am of the view that Transnet should proceed with the evaluation of the tender in terms of the criteria stipulated therein.

Yours sincerely

Pravin

PRAVIN J GORDHAN
MINISTER OF FINANCE
Date: 26-04-2013

Procure 1064 Locomotives for TFR General Freight



Date of Submission to TFRIC	9 March 2012
Addressed To	Transnet Freight Rail Investment Committee
Title of Submission	Procurement of 1064 New Locomotives
Version	0
Prepared by	F Callard
Reviewed by	
Financial Model prepared by	Janse Marias
Financial Model reviewed by	
Date compiled	5 March 2012

Document Control

Version	Key Changes	Date	Author

1 Contents

2 Executive Summary

This document proposes procuring 1064 new locomotives as part of the 2012/13 – 2017/18 7 year business plan 2012/13 – 2017/18 in the amount of R38 146.3m to support the TFR growth plan to 171 million tons. The locomotives form part of the 1202 identified as required to support the 171 mt growth plan in sustaining and expanding the existing fleet. The breakdown of the locomotives is 599 electric, 465 diesels with 507 being sustaining and 557 being expansion.

This business case is a development of the locomotive fleet plan approved by the Transnet Board in April 2011 and subsequent additions in line with the proposed growth in tonnages.

This business case is specific to the General Freight program and does not include locomotives for the Export Coal and Export Ore lines which will be separate submissions.

The business case argument is developed along the following broad lines

1. Establish the market demand
2. Establish locomotives required to service the demand
3. Establish the current fleet and runouts
4. Establish the new locomotive requirements to meet the shortfall between demand and available.
5. Financial and other aspects related to the new locomotive procurement.

3 Project Name and key characteristics

Key project characteristics are

- Project Name — Procure 1064 locomotives supporting General Freight Volume Growth to 171 million tons in 2018/19
- Portfolio — Transnet Freight Rail: Rolling Stock:
- Programme — GFB
- Corridor — National except for Coal and Iron Ore Export
- Commodity — All commodities
- Asset Group — Locomotives
- Expand / Replace — Replacement:
Expansion:
- Evaluation Score — 3.84 – Electric Locomotives
3.84 – Diesel Locomotives
- Proposed — Start 2012/13 End 2017/18
- ETC — R43 373bn (Excluding Borrowing Cost)

4 Business problem and proposed resolution

TFR derives its primary income by providing time-place utility service for its customers through the transportation of goods. The quantum of the service is measured in net ton kilometres for which it charges a tariff and the service is delivered through its primary assets of locomotives and wagons. TFR's locomotive fleet is old by world standards and many of its locomotives have reached or are nearing the end of their economic life. The accelerating rate of the "run-out" of locomotives reduces the fleet available for operations. Simultaneously TFR's 7 year business plan for 2012/13 – 2017/18

predicates an increase in general freight traffic from 84mt pa to 171mt pa in 2017/18. Delivering on this plan is only possible with an adequate fleet of reliable locomotives and wagons.

This business case addresses sustaining and expanding the current fleet to support the business plan through the programmatic procurement of 1064 locomotives over seven years to deliver on the proposed business plan volumes.

The project supports the strategic objectives of Transnet by addressing Re-engineering, Integration, Productivity and Efficiency (RIPE) by providing appropriate assets for use on general freight corridors in support of all commodities conveyed.

4.1 Problem Statement in Relation to Current Operating Environment

4.1.1 TFR Locomotive Fleet Capacity

TFR's Locomotive Fleet Plan presented to and approved by the Transnet Board in April 2010 presented the current composition of the fleet, how it would run-out, the locomotive upgrades and the new locomotives required to achieve volumes of 110mt pa.

Subsequent updates were presented indicating the fleet required for General Freight for volumes of 156mt per annum (pa) and 171mt pa.

Key features of the fleet plan are:

- Operational difficulties caused by a diverse fleet of multiple locomotive types
- Categorisation of locomotives into five types
- Standardisation of the fleet
- Improved efficiencies of new generation locomotives

The rationale for procuring new locomotives is set out against:

- The capacity of current fleet and its projected decline as locomotives run out
- New locomotives required to sustain the current fleet
- New locomotives required to deliver the increase in volumes

The table below summarises the current and proposed future locomotive fleet for general freight up to 2021/21. Of note and concern is the rapidly increasing loss of operational capacity in the existing fleet in the years 2019/20 – 2021/22. The respective sections below provide the detailed analysis to the table.

Table 1: Current and Proposed fleet

Description / Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Fleet after runout and operational losses but before delivery	1697	1743	1770	1788	1737	1650	1514	1421	1304	1177
Cumulative Taken into Service	53	175	344	561	791	1004	1173	1245	1245	1245
Fleet After Delivery	1750	1918	2114	2349	2528	2654	2687	2666	2549	2422
Required Fleet - Year Opening	1699	1894	2132	2377	2524	2652	2757			
Surplus / (Shortfall)	51	24	-18	-28	4	2	-70			

Note: The cumulative figure of 1245 locos taken into service is includes (i) the 1202 per the fleet plan (ii) 35 diesels from an order of 100 previously approved and delivered in 2012/13 and (iii) 8 diesels from the same order delivered in 2011/12 but only fully commissioned in 2012/13 .

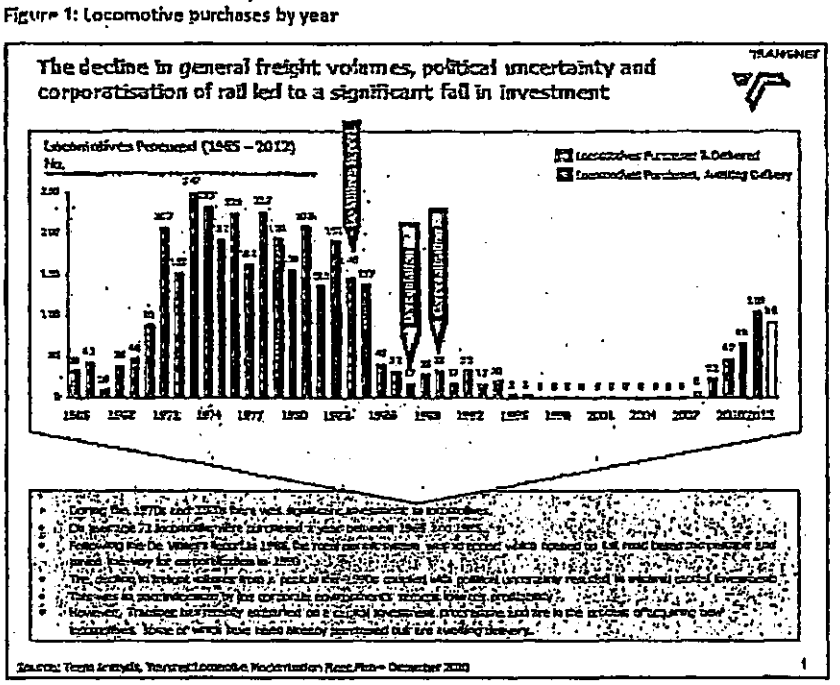
4.1.2 Investment History and Locomotive Fleet Run-Out

TFR is generally considered as being under capitalised with an aging infrastructure unable to deliver and consequently hampering South Africa's economic growth. Effective rail delivery requires a balance between locomotives, wagons, infrastructure and personnel. 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 2004/5 they have been upgraded and expanded to take advantage of the commodity boom. By contrast, little was spent on General Freight.

This business case for R38 146.3m for new locomotives for General Freight should be read in conjunction with the proposed R32.6bn for the provision of new and upgrading of existing wagons as part of the same seven year plan.

The expected useful life of a locomotive in a class 1 railroad is 30 years. The average age of the TFR General Freight Locomotives is over 30 years and current programs have extended that life to a maximum of 45 years. The diagram below reflects the procurement history of locomotives within TFR.

Figure 1: Locomotive purchases by year

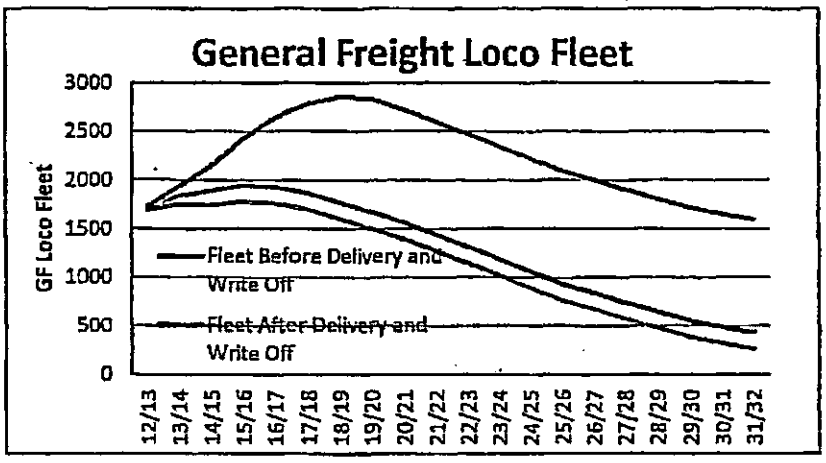


A consequence of this procurement history is that the locomotives purchased during the period 1970 to 1985 are due to run out soon.

The general workhorse locomotive of General Freight was the 6E series of 3kV DC locomotives when 1040 were delivered between 1970 and 1985. The locomotives were locally manufactured and were all interoperable. The series were continuously improved over 11 distinct series but they are all based on a common design and components.

The updated graphical run-out of the General Freight locomotive fleet is depicted in Figure 2 below. A detailed table of runouts by locomotive class is depicted in Annexure 9.3 Annexure: Locomotive Runout Mitigation.

Figure 2: Future view of the General Freight locomotive fleet



4.1.3 Remedial Actions to Mitigate Loco Run-Out

The locomotive lifecycle is taken as thirty years which is the same as its depreciation period. Two primary strategies were adopted to mitigate locomotive run-outs and extend the useful locomotive life to forty-five years. The extension to forty-five years however was a consequence of not being able to afford new locomotives at the time and was not a formal restatement of policy.

The first strategy was to upgrade the workhorse 6E series of locomotives to the 18E series through a partial redesign, rebuild and upgrade of components and the replacement of the electro-mechanical control system with an electronic control system. The result was an improvement of locomotive output from 180Kn to 210Kn and a fifteen year extension in locomotive life.

The second strategy was an upgrade program to the class 34D locomotives supplied by General Electric (GE) and General Motors (GM). These upgrade programs comprise a mix of extensive routine maintenance, rewiring, body repair and repaint. 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 car that prevents wheel spin.

The effect of these strategies however is to defer the runout of locomotives as their life is extended but it cannot obviate the runouts.

4.1.4 Locomotive Standardisation

The Locomotive Fleet Plan has stressed locomotive standardisation and the operational and maintenance problems brought about because of lack of standardisation. TFR inherited a high degree of standardisation in the commonality of the 6E series electrics and the class 34 diesels bought during the seventies and early eighties. The Locomotive Fleet Plan puts forward five standard locomotive types including a general freight workhorse locomotive with a maximum axle loading of 22 tons per axle and a standard general freight diesel locomotive.

Balancing the strategic imperatives of standardisation of the fleet and ongoing lowest cost procurement over years is expanded in the section dealing with procurement.

4.1.5 Ability to Meet Current and Future Market Demand

Meeting current demand will be impacted by the run-out of the current fleet while meeting future demand requires additional locomotives.

The pertinent points of the assumptions and analysis underpinning the required locomotives are summarized below:

Workhorses:

The number of locomotives in the General Freight fleet at any time is the active fleet. The active fleet is further categorised into the operational fleet and fleet undergoing maintenance. The operational fleet, as its name implies, are the locomotives available for operations while the number of locomotives undergoing maintenance or minor repair are taken as 12% of the active fleet. The operational fleet is further categorised into "shunters" and "workhorses". Shunters are primarily used for the placing and clearing of loaded wagons and the compilation of a train before departure. Shunters, while not prime income earners in their own right, are an essential component of operations and constitute an overhead cost that has to be covered.
Workhorses are the prime movers hauling loads between hubs and generate the income earning net ton kilometers. They are used in the calculation of locomotive efficiencies.

Locomotive Utilisation

The recognized metric of locomotive performance is "gross ton kilometre" per unit of time which will always be higher than the income producing "net ton kilometre".

The locomotive utilisation improvement per the 7 Year 2012/13-18/19 plan is depicted in the table below:

Table 2: Locomotive Utilisation

Locomotive Efficiency	Actual 10/11	Est 11/12	Forecast 12/13	13/14	14/15	15/16	16/17	17/18	18/19
MGTK / Loco / Month[1]	5149	5214	5489	5402	5636	6287	6357	6476	6923
CAGR[2]			5%	4%	8%	21%	22%	24%	33%

[1] Operational workhorses only. Excludes shunters and locos in maintenance.
[2] Compound Annual Growth rate

The increase in locomotive efficiency is based on two factors; firstly an inherent improvement in utilization of the current fleet and secondly in greater tractive effort per locomotive of the proposed procurements.

Tractive effort and Locomotive Efficiency

The class 34 workhorses of the diesel fleet are over 30 years old. Modern locomotives have significant improvements in engine design and lower pollutants per ton kilometre. The improvement in fuel efficiency of modern locomotives over the older generation is of the order of 8%. The proposed locomotives are also more powerful with a continuous tractive effort of 349 kN compared to the 218 kN of the class 34 diesels.

A direct comparison with the class 6E and 18E to the proposed new locomotive is not possible as no equivalents have been delivered. However, taking experiences from the recently delivered 19E and 15E series into account, an electrical efficiency improvement of at least 18% can be expected together with a regenerative capability feeding power back into the Eskom grid. The design calls for a tractive effort between 267 and 400 kN which is considerably higher than the 193 kN of the 6E series or the 210 kN of the 18E series.

Considering the above, the new locomotives have been considered to replace current locomotives at 1 new for every 1.3 current diesel and 1 new for every 1.5 current electric locomotive.

4.2 Business Opportunity

4.2.1 Market Demand as a Business Opportunity

From the TFR business Plan, Freight Rail volume projections per commodity for the seven year time horizon of the Business Plan are detailed in para 9.1 Annexure: 7 Year Commodity Growth and summarised in Table 3 below. It should be noted that the projections represent a market demand view of volumes in support of Government's New Growth Path (moderated in line with port capacity and Eskom electricity supply). These projections reflect significant volume growth for the proposed business units and the overall general freight commodities. The achievement of volume projections are dependent on:

- Shifting Traffic from road to rail
- Rail capturing growth in transportable freight tons
- Significant investment in strategic expansion projects in cooperation with government, Eskom and customers
- Operational efficiency
- Investment in rail handling facilities

Table 3: 7 Year Market Demand

	Estimate	Budget	Projections					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
General Freight mt (executed by focussed Business Units)	79.7	[illegible]	96.6	115.5	136.8	151.4	160.7	170.2
Export Coal mt	67.6	[illegible]	79.0	84.0	84.0	84.0	95.0	97.5
Export Iron Ore mt	51.0	[illegible]	62.3	62.3	62.3	70.3	78.3	82.5

The assumptions underlying the commodity growth ambitions for Freight Rail are listed in Table 4 below.

Table 4: Commodity Growth Assumptions

Commodity	Assumptions
Coal	• Driven by ESKOM's consumption and migrstion from road to rail for power stations • Sustained strong demand for South African coal with the emergence of China and India as net importers of thermal coal
Iron Ore	• Domestic and regional consumption of steel fuelling demand for iron-ore & new iron ore export project from Thabazimbi to Richards Bay / Maputo
Manganese	• SA's share of world output set to grow with expansion projects planned by both traditional miners and junior miners
Containers	• Rail container volumes to increase in line with Freight Rail's objective of increasing market share along key intermodal routes such as the NATCOR
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
Magnetite	• Demand mainly from China remains strong – driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started
Grain, Maize, Wheat & Foodstuffs	• Domestic harvests average between 10mtpa - 14mtpa, weather permitting. Demand projection represents TFR's increased share of total market demand as more traffic is shifted from road to rail

4.2.2 Locomotives Required to Service Market Demand

The General Freight fleet of 1430 active workhorses and 320 shunters (1750 total) for 2012/13 will service 87.6 mt at a utilization rate of 5 489 million gross ton kilometres per loco per month.

Extrapolating and taking improved locomotive efficiencies into account, the locomotives required to service the market demand are set out in Table 5: General Freight Locomotive Requirements.

The current ratio of 63% electric and 37% diesel locomotives changes over the period of the business plan and the increased volumes to 66% electric and 34% diesel. While diesels are more generally more versatile, the greatest increase in tonnages is on electrified routes where a greater number of electric locomotives will be required.

There is a delay between the time a locomotive is delivered and the time it is brought into the full service. The delay results from testing the locomotive for conformance to specification and basic bedding down and fault rectification. Design shortcomings are fed back into the production line for correction. The delay varies by type and timing in the delivery cycle with electric locomotives taking longer than the diesel locomotives and locomotives in the beginning of the delivery cycle taking up to a year from delivery before final acceptance. As delivery progresses and the production is standardized, the commissioning and testing is shortened to basic acceptance tests. The average period between delivery and full productive service is taken as six months.

The active fleet required to service the planned General Freight volumes as they increase to 171 mt in 18/19 is depicted in Table 5 below.

Table 5: General Freight Locomotive Requirements

Year	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Million tons		87.70	96,60	115.30	136.70	151.20	160,40	170.20
Workhorse	1 271	1 354	1 549	1 787	2 032	2 179	2 307	2 412
(Diesels)	472	490	545	608	714	769	808	818
(Electrics)	799	864	1 004	1 179	1 318	1 410	1 498	1 594
Shunters	345	345	345	345	345	345	345	345
Active Fleet	1 616	1 699	1 894	2 132	2 377	2 524	2 652	2 757

A number of locomotive orders have been approved and are either on tender or the orders have been placed. The deliveries of these locomotives have been factored into the final requirements and are indicated below.

Table 6: Current and Proposed Locomotive Deliveries

Status	GFB	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
On Order	Diesel	35	Final of 100 Class 43 Diesels (not part of the 1202)						100
On Order	Diesel	18	25						43
(Part 1202)	Electric		45	50					95
Sub-Total		18	70	50					138
Proposed	Diesel		100	100	100	100	65		465
(Part 1202)	Electric			65	130	130	130	144	599
Sub-Total			100	165	230	230	195	144	1064
Total		18	170	215	230	230	195	144	1202

Starting with the current fleet and taking runouts, operational losses, and proposed new deliveries into account the resultant active fleet is repeated below.

Table 7: Current and Proposed fleet

Description / Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Fleet after runout and operational losses but before delivery	1697	1743	1770	1788	1737	1650	1514
Taken Into Service	53	175	344	561	791	1004	1173
Fleet After Delivery	1750	1918	2114	2349	2528	2654	2687
Required Fleet - Year Opening	1699	1894	2132	2377	2524	2652	2757
Surplus / (Shortfall)	51	24	-18	-28	4	2	-70

Detailed analysis supporting the derivation of Table 7 is set out in Appendix C.

The shortfall indicated in the above table is considered to be within manageable limits and the accuracy of future projections.

4.3 Proposed Resolution

The TFR Fleet Plan and amendments as tabled predicates 1202 locomotives comprising 694 new electric locomotives and 508 new diesel locomotives required to service the 171 mts planned for 12018/19. 95 Electric and 43 diesel locomotives of the aforementioned 1202 have already been approved and are either on order or on tender.

The proposed resolution therefore is to purchase 1064 locomotives (including spares) comprising 599 new electric and 465 new diesel locomotives over the period 2012/13-18/19 at a proposed cost of R38 146.3 m.

The proposed resolution and proposed cash flow is more fully set out in Table 8 and Table 9 below.

Table 8: Proposed Project Cash Flow

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Diesels Locos		100	100	100	100	65		465
Rm	R 241.5	R 2 427.1	R 2 548.4	R 2 715.8	R 3 124.8	R 2 204.9	R 0.	R 13 262.5
Electrics			65	130	130	130	144	599
Rm	R 0.	R 222.2	R 2 465.9	R 4 735.2	R 5 418.7	R 5 998.2	R 6 043.8	R 24 883.9
Total	R 241.5	R 2 649.2	R 5 014.3	R 7 451	R 8 543.4	R 8 203.1	R 6 043.8	R 38 146.3

Table 9: Proposed 2012/13 Cash Flow

Cash flow 2012/13	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Rand Million										R 222.2			

The proposed resolution accords with the 7 year 2012/13-18/19 business plan per detail below:

- Row: 11113.11 - Demand Driven - 465 Locomotives GFB 171mt Diesels
- Row: 11113.12 - Demand Driven - 599 Locomotives GFB 171mt dual voltage Electrics

The cash flow is in line with the business plan.

The above is also the project deliverable.

4.3.1 Impact on TFR Business

Locomotives are integral to TFR's business and revenue generation. The current fleet can only sustain the current levels and with efficiencies effect some improvement but procurement of new locomotives is essential to protect current business with the runout of the current fleet and for volume growth.

The almost doubling of general freight volumes over the seven year period of the business plan cannot be achieved without significant investment and almost equivalent doubling of the locomotive fleet.

Table 10 below gives a first order indication of the impact of workhorse locomotives on TFR's general freight business as it shows the relationship between million tons transported, revenue and locomotives.

Table 10: GFB Business Impact

GFB Only	Estimate	Budget	Projections					
		12/13	13/14	14/15	15/16	16/17	17/18	18/19
Million Tons		87.70	96.60	115.30	136.70	151.20	160.40	170.20
Revenue Rm	27,717	34,176	39,576	47,499	56,755	65,818	75,524	83,339
Active Locomotives	1 616	1 699	1 894	2 132	2 377	2 524	2 652	2 757

4.3.2 Procurement Breakpoints

A seven year procurement program has inherent risks. The original demand and market related assumptions may change and there are downside risks to such large procurement contracts over the seven year period.

Equally, the lifecycle for locomotives is at least thirty years which transcends general economic cycles. Locomotive manufacture is capital intensive and lowest cost is obtained when production lines are operating continuously with a reasonable prospect of future orders. Short term procurement is possible but carries the inherent risk of starting and stopping production lines with material procurement subject to short term market fluctuations.

This document does not prescribe procurement breakpoints but recommends due consideration to balancing procurement between:

- Achieving standardisation across the diesel and electric fleets, each with a long term order
- Minimising costs through economies of manufacturing scale
- Creating a sustainable locomotive manufacturing industry that will survive fulfilling current and short term requirements
- Protecting TFR by confirming future requirements on an annual basis.

4.4 Investment Classification

The capital investment is primarily for growth and expansion though it includes maintaining the capability of the current fleet as locomotives runout. The summarised general freight fleet runout by diesel and electric is tabled below.

Table 11: General Freight Fleet Runout

Run Outs	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Total	46	61	84	29	71	78	138	507
Diesel	10	7	0	0	16	46	57	136
Electric	36	54	84	29	55	32	81	371

The dynamics of managing the locomotive fleet are such that there is not an exact match per year between runouts and procurements. Summated over the seven period of the business plan however, the sustaining capital to replace runouts and the expansionary capital for market growth is tabled below. The capital is proportioned according to the total expenditure and not by annual expenditure.

Table 12: Sustaining and Expansion Capital

	Sustaining	Expansion	Total
Diesels	136	329	465
Rm	R 3 878.9	R 9 383.6	R 13 262.5
Electrics	371	228	599
Rm	R 15 412.2	R 9 471.7	R 24 883.9
Total	R 19 291.1	R 18 855.2	R 38 146.3

4.5 Project Stage

The Transnet Project Lifecycle Process of FEL 1, 2 and 3 are primarily applicable to infrastructure and construction related projects with successive discovery and clarification of conditions impacting construction techniques and also the final price. The processes have not been applied to locomotive procurement where there is not the same risk of undiscovered conditions.

The project is however the logical outcome of the TFR Locomotive Fleet Plan.

5 Options Considered to Address Business Need

5.1 Identification of Options

Locomotives are integral to railway operations and the movement of goods. The runout of the current fleet and increased market demand predicates the need for new locomotives.

Options to mitigate runout of the current fleet were described in 4.1.3 Remedial Actions to Mitigate Loco Run-Out

Constraining the choice of options is the limit on axle loading and the maximum power that can be delivered through the overhead traction system.

Further influencing the recommended option is the power per locomotive that optimises the number of locomotives required per train considering train length, train load, gradient, curvature and universality of deployment.

Only standard tractive power options of diesel and electric traction were considered. Dual voltage electric traction locomotives are specified to minimise operational constraints.

Long term factors influencing the choice of and between diesel and electric locomotives are more fully set out in the Locomotive Fleet Plan as presented.

No alternative option is presented for the purchase of new locomotives to meet increased market demand.

Option A – Recommended Option

The recommended option per para 4.3 Proposed Resolution is to purchase 1064 locomotives (including spares) comprising 599 new electric and 465 new diesel locomotives over the period 2012/13-18/19 at a proposed cost of R38 146.3 m

Option B – Alternate Option

Alternate options in mitigating runouts have been discussed. This option does not meet the increased demand.

Increasing locomotive efficiency has also been discussed in para 4.1.5 Ability to Meet Current and Future Market Demand and does not meet the increased demand.

Option C – No Option Identified i.e. Do Nothing/"Status quo"

The Do Nothing / "Status Quo" option will see a gradual reduction in the capability of the current fleet and an increasing inability to meet market demand.

The advantages and disadvantages of the various options are outlined above and are not further explored.

5.2 Financial Case

The financial details are covered in Section 6 Detailed Analysis of Recommended Option, para 6.2 Financial Analysis

5.3 Environmental considerations

5.3.1 Diesel Locomotives

Considering the TFR diesel fleet is more than thirty years old, the locomotives can be considered polluters. The new diesels would at least meet United States Environmental Protection Agency Tier 3 standards and Tier 4 when it comes into effect.

The EPA introduced the Tier 1 emission standards for nonroad diesel engines in 1998. More stringent emission standards (Tier2 and Tier 3) were introduced and the Tier 3 emissions standards for main line locomotives came into effect in January 2012.

In 2004 the Clean Air Nonroad Diesel - Tier 4 Final Rule was introduced which is a comprehensive national program to reduce emissions from future nonroad diesel engines by integrating engine and fuel controls as a system to gain the greatest emission reductions. To meet these emission standards, engine manufacturers will produce new engines with advanced emission-control technologies similar to those already expected for highway trucks and buses. Exhaust emissions from these engines will decrease by more than 90 percent. Because the emission-control devices can be damaged by sulfur the EPA is also adopting a limit to decrease the allowable level of sulfur in nonroad diesel fuel by more than 99 percent. These much stricter Tier 4 standards are due to come into force in 2015.

Similar phased Locomotive Emission Standards have been adopted in Europe and by the International Union of Railways (Union Internationale des Chemins de fer, UIC),

5.3.2 Electric Locomotives

Electric locomotives are not considered as polluters per se. However experience gained from the Ore Line 9E Series locomotives and the new 15E series indicates at least an 18% percent efficiency improvement in energy conversion.

A similar improvement is expected in the new general freight electric workhorse with AC traction motors as opposed to the 18E series with DC traction motors that they will replace.

5.4 Commercial Viability

The TFR 7 year 2012/13-2018/9 business plan is ambitious in its growth targets and R209bn capital program. The locomotive program is one of the elements required together with the wagons and infrastructure required to realise the business plan.

The financial summary has been outlined in the 2012/13-2018/9 business plan and, with the assumptions, demonstrates the viability of the business plan including the new locomotive program.

The market demand has been quantified through a number of exercises both qualitatively and quantitatively and the model supporting the 2012/13-2018/9 business plan is available for inspection.

The proposed tariffs and revenue from the model are indicated in Table 13 together with the annual percentage revenue increase.

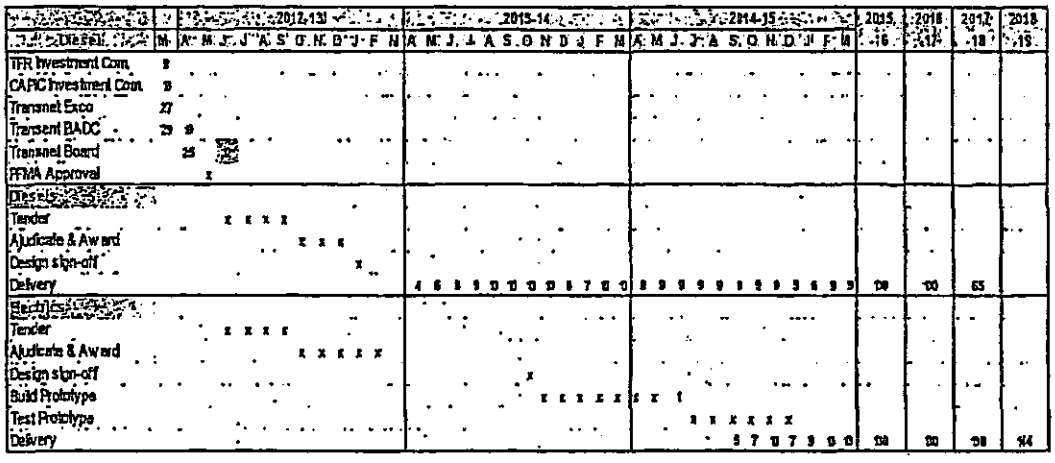
Table 13: Proposed Tariffs

General Freight	2011/12 Estimate	2012/13 Budget	2013/14 Projection	2014/15 Projection	2015/16 Projection	2016/17 Projection	2017/18 Projection	2018/19 Projection
Tons (M)	79.9	87.5	96.6	115.5	135.8	151.4	160.7	170.2
Avg Tariff (R/tkm)	0.36	0.40	0.43	0.45	0.49	0.53	0.57	0.61
Avg Tariff (R/ton)	R 216.78	R 219.75	R 237.03	R 251.91	R 271.41	R 291.23	R 315.44	R 339.11
Annual Increase		9.77%	7.86%	6.28%	7.74%	7.30%	8.31%	7.50%

5.5 Project Achievability

A high level plan for achieving the project milestones is graphically illustrated below

Table 14: Project Milestones



The project plan also depicts compliance with extant approval policies.

The project will be under the control of the General Manager, Capital Projects, Ms Rita Roper.

The project time frame has no slack and any slippage in the early stages will impact the delivery schedule. Currently there is no reason to update the project schedule.

The project teams that will manage the project have gained first-hand experience in managing the recent locomotive deliveries of the 50 EMD, 100 GE, 112 19E and 76 15E locomotives.

The project itself is not dependent on other projects but does have critical dependencies including:

6. Deployment plan
7. Spares and Maintenance facilities
8. Revised maintenance paradigm
9. Trained crew
10. Train schedules

5.6 Key assumptions

The key assumptions underpinning this project are:

1. Project approval goes according to schedule which is also a major risk.
2. PFMA approval will be forthcoming.
3. The project will not be delayed through protracted CSDP considerations
4. The market demand and revenue to secure annual orders will be realised
5. The tariff increases to support the projected revenue stream will be granted
6. Design and approval processes will take place within the specified timeframes
7. Successful tenderers will be able to ramp to the required capacity in the time frame specified

Many of the assumptions also have an underlying risk. The risk element is addressed in para 6.3 Risk and Sensitivity Analysis below.

5.7 Risk versus benefit

A cost-benefit analysis of life-cycle extension options is not considered as this would take the current fleet beyond 45 years life. It is possible to continue to remanufacture a locomotive beyond this period but it is not the general practice of Class I Railroads. USA Class II railroads do remanufacture beyond this period but they would be classified as branch line operations.

The balance between (i) standardisation (ii) single supplier (iii) developing local industry (iv) feedback to manufacturing process and (v) perceptions by losing tenderers is a matter of judgement and management.

The above issues notwithstanding, the previous benefits of earlier standardisation, the benefit to local industry and future benefits of standardisation favour the approach adopted.

5.7.1 Option Benefits

The benefits of procuring 1064 locomotives are in meeting market share and the 7 year business plan targets.

The risks related to the procurement are mirrored from the assumptions. Key risks to the project are:

1. Adherence to approval, award, design and delivery time frames
2. Realising the market demand and revenue stream

5.7.2 Option Risks

Risk	Likelihood	Impact	Mitigating actions
Delay in approval time frame possibly relating to CSDP issues	Medium	High	Rapid response to queries

Delay in award because of the size and duration of the tender and complexity of long term factors including breakpoints	Medium	High	Clear tender conditions and skilled adjudication team
Delay in electric locomotive design	Low - if awarded to firm(s) who have current benefit of local experience. High – if awarded to firm(s) requiring design from scratch	High	None. Fair process to prevail
Delay in delivery	Low - if awarded to firm(s) who have current capability. High – if awarded to firm(s) requiring establishing manufacturing facilities from scratch	High	None. Fair process to prevail.
Ineffective deployment	Low	Medium	Managed as part of the project team. There will be on-going redeployment of the fleet to optimise utilisation and achieve benefits of standardisation with depots.
Lack of maintenance facilities	Low	Medium	TRE are apprised of procurement and co-developed the 7 year maintenance plan.
Not adopting modern maintenance practices	Low to Medium	Medium	TFR to plan to train allocation such that locomotive is at a depot when due for service. TRE to adapt to the modern technologies in the new locomotives. (Change from mechanical based diesel-fitter to electronically skilled diagnostician).
Availability of trained crew	Low	Medium	TFR School of Rail to commence with training of crew. Driver certification program takes two years and has already been fast-tracked.
Poor locomotive management	Low	Medium	TFR to increase short and long term predictive (planned) locomotive allocation against reactive allocation.

With only one viable option, an Assessment of Risks versus benefits for the other options is trivial and not taken further.

6 Detailed Analysis of Recommended Option

6.1 Benefit Realization

The quantifiable benefits are tabulated below. While the overall improvements are measurable, specific targets are not set except for overall financial performance.

Table 15 Qua ntifiable Benefits

Benefit	Measurement
Meet 7 yea business plan target (through)	Operational and financial performance per the 7 year business plan
• Improv d service delivery (from)	Improved on time arrivals and departures
o Impro ved locomotive availability (and)	Reduced time in maintenance with modern maintenance practice
o Impro ved locomotive reliability	Reduction in faults to international norms of 20 faults per million kilometres

The non-qu ntifiable soft benefits are tabulated below. The absence of a quantifiable metric does not detract fro their importance.

1. Ad nce national SA strategy through contribution to growth plan
2. Imp oved customer perception
3. Imp oved employee morale

6.2 Fina cial Analysis

6.2.1 Cap ital costs

The diesel l comotive capital costs and contingencies are set in Table 16 below. The base price is R23m in 2012/13 t R7.90 : USD with an annual escalation of 5%. Contingencies of R945.5m (7.68%) have been allowe d as indicated.

Table 16 Diese Capital Costs

Diesel	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Escalation %		5.0%	5.0%	5.0%	5.0%	5.0%		
Unit Cost Rm	23	24.15	25.36	26.63	27.96	29.35		
Quantity		100	100	100	100	65		
Cost Rm		R 2 415	R 2 536	R 2 663	R 2 796	R 1 908		
Annual Depos 10%	R 241.5	R 253.6	R 266.3	R 279.6	R 190.8			
Annual Balan 90%		R 2 173.5	R 2 282.2	R 2 396.3	R 2 516.1	R 1 717.2		
Payment	R 241.5	R 2 427.1	R 2 548.4	R 2 675.9	R 2 706.9	R 1 717.2		R 12 317.0
Contingency	R 0.0	R 0.0	R 0.0	R 39.9	R 417.9	R 487.7		R 945.5
Total Rm	R 241.5	R 2 427.1	R 2 548.4	R 2 715.8	R 3 124.8	R 2 204.9	R 0.0	R 13 262.5

The electric l comotive capital costs and contingencies are set in Table 17 below. The base price is R31m in 201 /13 with an annual escalation of 5%. Contingencies of R1 973m (8.61%) have been allowed as in dicated.

Table 17 Electric Capital Costs

Electrics	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Escalation %		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Unit Cost Rm	31	32.55	34.18	35.89	37.68	39.56	41.54	
Quantity		0	65	130	130	130	144	
Cost Rm			R 2 222	R 4 655	R 4 888	R 5 143	R 5 982	
Annual Deposit 10%		R 222.2	R 466.5	R 489.8	R 514.3	R 598.2	R 0.0	
Annual Balance 90%		R 0.0	R 1 999.4	R 4 198.7	R 4 408.5	R 4 629.1	R 5 384.0	
Payment	R 0.0	R 222.2	R 2 465.9	R 4 688.6	R 4 923.0	R 5 227.3	R 5 384.0	R 22 910.9
Contingency	R 0.0	R 0.0	R 0.0	R 46.7	R 495.7	R 770.9	R 659.8	R 1 973.0
Total Rm	R 0.0	R 222.2	R 2 465.9	R 4 735.2	R 5 418.7	R 5 998.2	R 6 043.8	R 24 883.9

6.2.2 Value Analysis and Corporate Plan Budget

Inspection of the 7 year business plan shows that the plan, particularly for General Freight, is a composite comprising locomotive, wagons and infrastructure and none can be viewed in isolation. The additional volumes are not possible without the additional locomotives, wagons and the additional infrastructure.

Table 18 General Freight 7 Year Business Plan Totals

Asset Group General Freight Only	Volume	Protection	Efficiency	Safety	Environment	Optimisation	Optimisation	Social	Grand Total
Locomotives	41 470	16 330	5 833	403					64 036
Wagons	20 434	15 746	235	256					36 670
Perway	19 321	19 807	3 495	1 741	89				44 454
Equipment		1 871	838	179			288		3 176
Buildings	424	310	52	85	76	1 139		278	2 364
Other									
Total Rm	R 81 649	R 54 065	R 10 452	R 2 664	R 165	R 1 139	R 288	R 278	R 150 700

Note that the above table only reflects the General Freight portion of the R203 357m TFR 7 year business plan.

The financial model with the results as reflected in the 7 year business plan underpins and forms the basis for the composite view.

6.2.3 Tax considerations

The financial model incorporates the tax treatment of new assets which is summarised for locomotives below:

1. Depreciation period of new asset – 30 years
2. Depreciation of Copex intervention – 5 or 12 years depending on the intervention

3. Wear and Tear – written off in year incurred.

The locomotives will be brought into use on successful commissioning after delivery

6.3 Risk and Sensitivity Analysis

The base price of the locomotives was taken as:

1.	Diesels	R23m	R7.90 : USD	2011/12
2.	Electrics	R31m	R7.90 : USD	2011/12

Despite the recent short term improvement in the Rand : USD exchange rate the prognosis is that that the Rand will weaken over the longer term. The primary exchange rate that will influence the overall cost could be USD, EURO or YEN depending on the manufacturer. However, only the imported portion is subject to rate of exchange while the local portion is subject to CPI related increases and material related indices such as steel and copper.

Annexure 9.5 ROE and CPI Sensitivity shows the respective Rand / $ and CPI forecasts from the Bureau for Economic Research and the Economist Intelligence Unit (both provided by Transnet Group). The Rand is projected to weaken most against the Dollar.

The appended calculations adverse exchange rate and the projected CPI increase come in at R35 783m which is less than the R38 146 requested which includes the contingency allowance.

6.4 Exchange Rate Hedging

Transnet group policy on Financial Risk Management, requires that all contracts entered into must be either ZAR/Rand based or effectively hedged to minimise the risk of financial loss due to exchange rate fluctuations and to reduce volatility of TFR's earnings due to fluctuations in such foreign exchange rates.

The project will hedged per group policy.

6.5 Key Assumptions, Dependencies and Limiting Factors

These have already covered under the above 6.3.

6.6 Stakeholder engagement, Cross divisional Impact and Public participation

There has not been a formal engagement with the stakeholder on the specifics of this project but on the generalities of volume growth and the resources required.

The project is subject to PFMA approval and it is proposed that the stakeholder and / or representatives be invited to the Transnet Board Meeting when the project is tabled for approval. This will facilitate a common understanding of the project and could significantly speed up the PFMA approval process.

The cross divisional impact has been covered in the additional volumes to be transported and more particularly in the increases import and export volumes.
Public participation has not been considered as these are assets specific to Transnet for its own use on its core network.

6.7 Operational readiness

The operational readiness plans have been identified and will be put in place with the approval of the project. The plans, which have been itemised and expanded under project risks, dovetail into the overall project schedule and are listed below:

1. Deployment plan
2. Maintenance facilities plan
3. Maintenance practices plan
4. Trained crew availability
5. Locomotive management plan
6. Scheduling plan

6.8 Human Resource Plan

The Human Resource plans are a sub-set of the operational readiness plans above.

7 Delivery Strategy for the Recommended Option

Except as expanded below, the delivery strategy has been covered in the foregoing. Additional items not covered above are:

7.1 Payment Strategy

Recent locomotive orders were generally paid according to a milestone schedule similar to the example below:

1. Implementation date
2. Underframe structure
3. Underframe invert equip.
4. Fit underframe top deck equip.
5. Fit modules - (shell erect)
6. Final connect & paint
7. Works test certificate
8. Acceptance date

A revised payment strategy is under consideration which reduces the number of milestone payments. Allowing for an initial deposit, there will be a greater emphasis on payment following successful delivery of a commissioned locomotive.

7.2 Statutory and Regulatory Requirements

Deployment of new locomotives is subject to Rail Safety Regulator (RSR) approval which is in three phases.

1. The RSR is informed of the intention to deploy a new class of locomotive and gives approval for the tests to be conducted.
2. TFR conducts a variety of commissioning tests on safety and safety mechanisms and train dynamics and train handling including braking and stopping distances. The test results are forwarded to the RSR.

3. Subject to a favourable test outcome, the RSR approves the general deployment of the locomotive type.

8 Updates to previous business case

Not Applicable

9 Annexures

The following project annexures are included:

9.1 Annexure: 7 Year Commodity Growth
9.2 Annexure: General Freight Fleet Runout
9.3 Annexure: Locomotive Runout Mitigation
9.4 Annexure: Analysis Supporting the Proposed Resolution
9.5 ROE and CPI Sensitivity

This section is left blank.

9.1 Annexure: 7 Year Commodity Growth

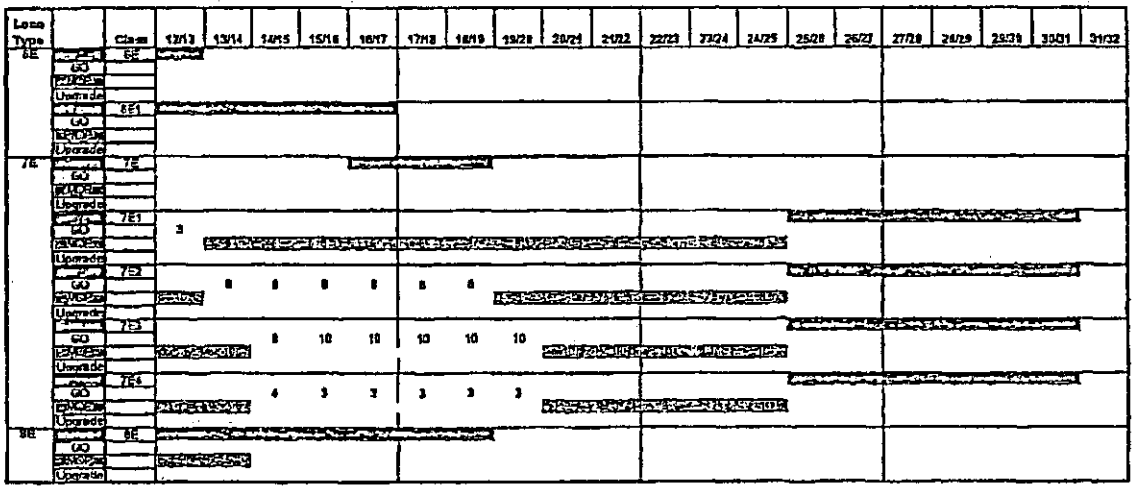
Commodity	M Tons 2012/2013	M Tons 2018/2019	Percent Increase 12/13 - 18/19
Commodities Not Classified In Groups	8.053	14.640	81.8%
Coal (Domestic Other)	9.191	14.408	56.8%
Containers (3m, 6m, 12m & Non-Iso Standard)	7.659	14.330	87.1%
Coal (Eskom Majuba)	6.823	14.000	105.2%
Manganese (Export Algoabay/Ngqura)	5.500	12.000	118.2%
Coal (Export – TCM / Maputo)	4.420	10.624	140.4%
Iron Ore (Domestic - Sishen)	5.116	8.965	75.2%
Coal (Eskom Tutuka)	1.179	7.000	493.8%
Cement	4.249	6.859	61.4%
Iron Ore (Domestic - Thabazimbi)	1.698	6.160	262.9%
Grain, Maize, Wheat & Foodstuffs	3.465	5.608	61.8%
Coal (Eskom Camden)	1.856	5.300	181.0%
Chrome (Export Richards Bay)	1.788	4.574	161.4%
Magnetite (Export - Richards Bay)	3.287	3.700	12.6%
Timber	2.283	3.545	55.3%
Ferro-Chrome	1.982	3.500	76.6%
Rock Phosphate (Export Richards Bay)	2.245	3.500	55.9%
Coal (Eskom Grootvlei)	0.000	3.300	119.3%
Petroleum Liquids (Domestic)	1.845	3.162	71.4%
Coal (Export - Durban Wests Bulk Connections)	1.572	3.000	90.9%
Lime	1.977	2.922	47.8%
Coal (Export - Richards Bay Navitrade)	1.574	2.257	43.4%
Iron Ore (Domestic - Roossenekal)	1.698	2.160	27.2%
Manganese (Domestic)	1.482	2.129	43.6%
Coal (Export - Richards Bay Dry Bulk Terminal)	0.552	2.040	250.7%
Magnetite (Export - Maputo)	1.100	1.300	18.1%
Manganese (Export Durban)	0.697	1.103	58.3%
Steel (Export Durban)	0.466	0.974	109.2%
Petroleum Liquids (Jet Fuel To Orlta)	0.444	0.812	82.8%
Automotive Vehicle Units	0.300	0.810	170.1%
Petroleum Liquids (Overborder)	0.446	0.792	77.7%
Chemicals	0.548	0.707	28.9%
Steel (Domestic)	0.390	0.689	76.5%
Chrome (Export Durban)	0.311	0.645	107.1%
Chrome (Export Maputo)	0.179	0.611	240.7%
Ferro-Manganese	0.316	0.509	61.3%
Chrome (Domestic)	0.339	0.491	45.0%
Magnetite (Domestic - Broodsnyersplaas)	0.176	0.400	126.7%
Iron Ore (Domestic - Beeshoek)	0.212	0.270	27.2%
Rock Phosphate (Domestic)	0.030	0.205	583.3%
Steel (Export Richards Bay)	0.083	0.105	27.2%
Steel (Export Maputo)	0.010	0.010	0.0%
Iron Ore (Domestic - Postmasburg)	0.008	0.008	-0.6%
Steel (Import Algoabay)	0.000	0.000	51.2%
Grand Total	87.610	170.226	94.30%

9.2 Annexure: General Freight Fleet Runout

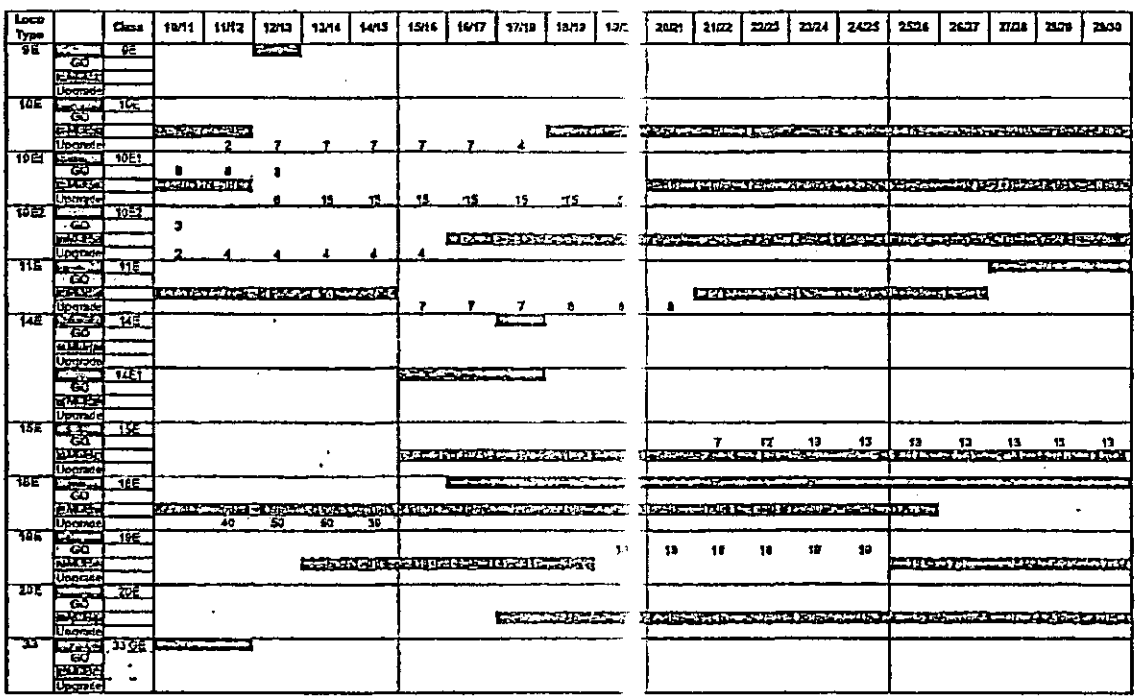
Locos	GFB FLEET		Runouts and upgrades outsame ye						Wreck repairs from previous year, Cascades same year													
Type	Class	1 /12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
6E	6E	2																				
	6E1	33	163	113	63	43	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
7E	7E	57	57	57	57	57	37	20														
	7E1	0		4	48	48	48	48	48	48	48	48	48	48	48	40	32	24	16	8		
	7E2	43	43	45	45	45	45	45	45	45	45	45	45	45	45	36	28	21	14	7		
	7E3	65	65	65	65	65	65	65	65	65	65	65	65	65	65	54	43	32	21	10		
8E	8E	68	54	50	46	37	25	13														
10E	10E	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41
	10E1	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	25	26	26	26	26
	10E2	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
14E	14E	1	1	1	1	1	1	1	1													
	14E1	7	7	7	7	7	7	4	1													
18E	18E	06	525	565	615	665	695	695	65	600	550	500	450	400	350	300	250	200	150	100	50	
33	33 GE	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17	17
34	34 GE	07	120	185	185	190	190	164	13	113	87	61	37	23	5							
	34 GM	19	89	89	89	94	81	65	67	73	82	82	72	47	34	15						
35	35 GE	13	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43
	35 GM	03	103	103	103	103	103	103	90	76	53	29	13									
36	36 GE	14	94	94	94	94	94	94	94	94	80	66	52	38	28	12	6					
	36 GM	77	77	77	77	77	77	77	77	77	77	77	77	77	63	48	40	26	12			
37	37 GM	48	48	48	48	48	48	48	48	48	48	48	48	48	36	24	36	26	14			
38	X38	15	38	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	33
39	39 GM	55	55	55	55	55	55	55	55	55	55	55	55	50	50	50	50	50	50	50	50	50
43	43 GE	17	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27
Gen. Freight		711	1710	1769	1809	1840	1802	1729	1663	1525	1421	1307	1133	1072	956	809	718	618	508	406	331	274
Diesel (before op. los			711	776	776	788	775	733	67	663	609	545	481	410	343	276	261	229	203	177	177	170
Electric (before op. los			999	991	1031	1052	1027	995	91	862	812	762	712	662	612	533	457	381	305	229	154	104
Diesel (Cum. op. loss			6	12	18	24	30	36	4	48	54	60	66	72	78	84	90	96	102	108	114	120
Electric (Cum. op. loss			7	14	21	28	35	42	4	56	63	70	77	84	91	98	105	112	119	126	133	140
Gen. Freight Current	et		1697	1743	1770	1788	1737	1650	151	1421	1304	1177	1050	916	786	627	523	402	287	172	84	14

9.3 Annexure: Locomotive Runout Mitigation

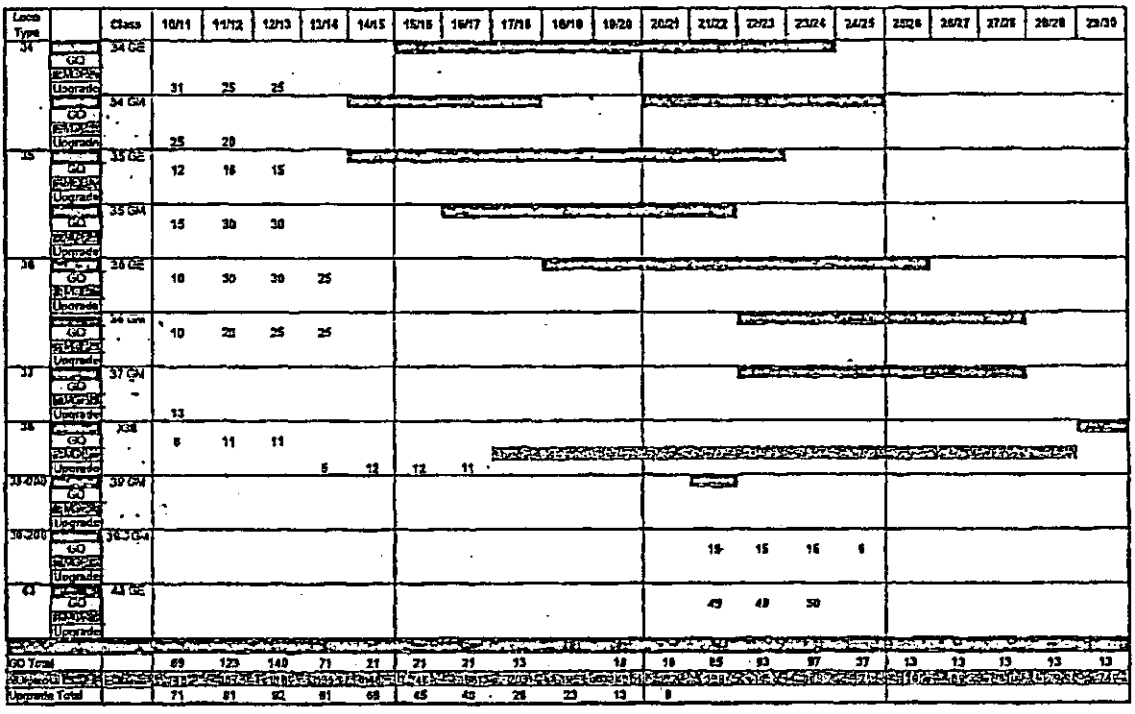
The table below, which extends over three pages, comprehensively depicts the planned upgrades, maintenance and runout by class the TRE locomotive fleet. The upgrade and maintenance plans (General Overhaul (GO) and Mini Overhaul Program (MOP)) are incorporated into the 7 year business pan 2012/13 - 2018/19, The numbers represent the number of locomotives per year that will either undergo a program or are likely to runout.



Locomotive Runout Mitigation (Continued)



Locomotive Runout Mitigation (Continued)



9.4 Annexure: Analysis Supporting the Proposed Resolution

This will be tabled at TFRIC

9.5 ROE and CPI Sensitivity

Cash flow based on 5% escalation and contingency per capital budget

Diesels	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Escalation %		5.0%	5.0%	5.0%	5.0%	5.0%		
Unit Cost Rm	23	24.15	25.36	26.63	27.96	29.35		
Quantity		100	100	100	100	65		
Cost Rm		R 2 415	R 2 536	R 2 663	R 2 796	R 1 908		
Annual Deposit 10%	R 241.5	R 253.6	R 266.3	R 279.6	R 190.8			
Annual Balance 90%		R 2 173.5	R 2 282.2	R 2 396.3	R 2 516.1	R 1 717.2		
Payment	R 241.5	R 2 427.1	R 2 548.4	R 2 675.9	R 2 706.9	R 1 717.2		R 12 317.0
Contingency	R 0.0	R 0.0	R 0.0	R 39.9	R 417.9	R 487.7		R 945.5
Total Rm	R 241.5	R 2 427.1	R 2 548.4	R 2 715.8	R 3 124.8	R 2 204.9	R 0.0	R 13 262.5

Electrics	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Escalation %		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Unit Cost Rm	31	32.55	34.18	35.89	37.68	39.58	41.54	
Quantity		0	65	130	130	130	144	
Cost Rm			R 2 222	R 4 665	R 4 898	R 5 143	R 5 982	
Annual Deposit 10%		R 222.2	R 466.5	R 489.8	R 514.3	R 598.2	R 0.0	
Annual Balance 90%		R 0.0	R 1 999.4	R 4 198.7	R 4 408.6	R 4 629.1	R 5 384.0	
Payment	R 0.0	R 222.2	R 2 465.9	R 4 688.6	R 4 923.0	R 5 227.3	R 5 384.0	R 22 910.9
Contingency	R 0.0	R 0.0	R 0.0	R 46.7	R 495.7	R 770.9	R 659.8	R 1 973.0
Total Rm	R 0.0	R 222.2	R 2 465.9	R 4 735.2	R 5 418.7	R 5 998.2	R 6 043.8	R 24 883.9

Total	242	2 649	5 014	7 451	8 543	8 203	6 044	38 146

Cash flow based on Economist Intelligence Unit R/$ ROE and CPI without contingency.

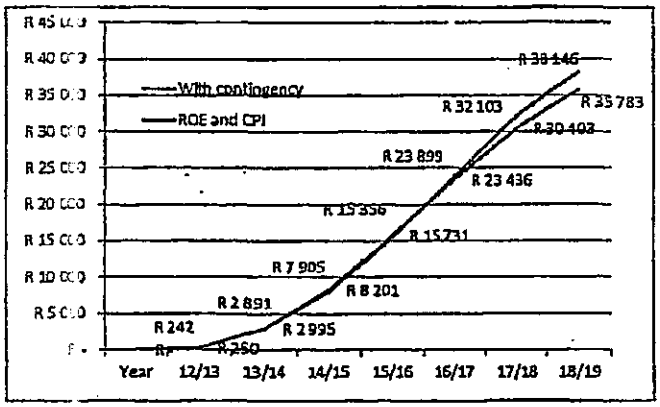
Figures indicate that initial contingency is sufficient to cover projected rate of exchange variations

Diesels	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Unit Cost Rm	23	25.00	26.39	27.26	28.25	29.46		
Escalation %		5.5%	4.8%	4.5%	4.8%	5.4%	5.5%	
Foreign	50%	50%	50%	50%	50%	50%	50%	
R/$	7.82	8.75	9.30	9.50	9.73	10.04	10.40	
Quantity		100	100	100	100	65		
Cost Rm		R 2 500	R 2 639	R 2 726	R 2 825	R 1 915		
Annual Deposit 10%	R 250.0	R 263.9	R 272.6	R 282.5	R 191.5			
Annual Balance 90%		R 2 250.0	R 2 374.7	R 2 453.7	R 2 542.4	R 1 723.4		
Payment	R 250.0	R 2 513.9	R 2 647.4	R 2 736.2	R 2 733.9	R 1 723.4		R 12 604.8
Contingency								R 0.0
Total Rm	R 250.0	R 2 513.9	R 2 647.4	R 2 736.2	R 2 733.9	R 1 723.4	R 0.0	R 12 604.8

Electrics	12/13	13/14	14/15	15/16	16/17	17/18	18/19	Total
Unit Cost Rm	31	33.70	35.58	36.75	38.07	39.71	41.51	
Escalation %		5.5%	4.8%	4.5%	4.9%	5.4%	5.5%	
Foreign	50%	50%	50%	50%	50%	50%	50%	
R/$	7.82	8.75	9.30	9.50	9.73	10.04	10.40	
Quantity		0	65	130	130	130	144	
Cost Rm			R 2 312	R 4 777	R 4 950	R 5 162	R 5 978	
Annual Deposit 10%		R 231.2	R 477.7	R 495.0	R 516.2	R 597.8	R 0.0	
Annual Balance 90%		R 0.0	R 2 080.5	R 4 299.3	R 4 454.8	R 4 645.8	R 5 379.8	
Payment	R 0.0	R 231.2	R 2 558.2	R 4 794.3	R 4 970.9	R 5 243.5	R 5 379.8	R 23 177.9
Contingency	R 0.0	R 0.0	R 0.0					R 0.0
Total Rm	R 0.0	R 231.2	R 2 558.2	R 4 794.3	R 4 970.9	R 5 243.5	R 5 379.8	R 23 177.9

Total	R 250	R 2 745	R 5 206	R 7 530	R 7 705	R 6 987	R 5 380	R 35 783

Year	12/13	13/14	14/15	15/16	16/17	17/18	18/19	
	R 242	R 2 649	R 5 014	R 7 451	R 8 543	R 8 203	R 6 044	
With contingency	R 242	R 2 891	R 7 905	R 15 356	R 23 899	R 32 103	R 38 146	(Cum)
	R 250	R 2 745	R 5 206	R 7 530	R 7 705	R 6 987	R 5 380	
ROE and CPI	R 250	R 2 995	R 8 201	R 15 731	R 23 436	R 30 403	R 35 783	(Cum)



Rand / Dollar

R/$	2011	2012	2013	2014	2015	2016	2017	2018
Economist	7.04	7.82	8.75	9.30	9.50	9.73	10.04	10.40
BER	7.25	7.88	7.65	8.04	8.41	8.81		

CPI

CPI	2011	2012	2013	2014	2015	2016	2017	2018
Economist	5.20	5.50	4.80	4.50	4.80	5.40	5.50	5.70
BER	5.00	6.30	5.80	5.50	5.70	5.70		

10 Recommendation: Proposed Resolution

The Transnet Freight Rail Investment Committee RESOLVED that it approves the following:

- To procure 1064 locomotives for General Freight as set out in Business Case version 0, dated 7 March 2012 in its entirety and without exception;
- For the estimated total cost of R38 146.3 m
- Which is to commence on 1July 201 and be completed by 31 March 2018

(Estimated dates which will not be extended by more than one year);

Project Authorisation Signatures

Transnet Freight Rail

Submission supported:

Surendra Chetty Acting General Manager, Capital Projects	Date

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

11 Annexure A – Key Project details

Key Information	Project Name	Procure 1064 Locomotives for General Freight
	Budget Line	Row: 11113.11 - Demand Driven - 465 Locomotives GFB 171mt Diesels Row: 11113.12 - Demand Driven - 599 Locomotives GFB 171mt dual voltage Electrics
	TFR Ref	To be advised
	Portfolio	Transnet Freight Rail: Rolling Stock:
	Programme	GFB
	Description	Procure 1064 Locomotives for General Freight. 599 electric and 465 Diesel
	Project Status	To be approved
	Corridor	National except coal and Iron Ore Export
	Commodity	All
	Province	All
	Asset Group	LO01
	Strategic Objective	RIPE
	Expand / Replace	557 Expansion, 507 Replacement
	Managed by	General Manager, Capital Projects. Ms Rita Roper
	Evaluation Score	Diesels 3.8, Electrics 3.8
	Project included in corporate plan?	Yes
	Evaluation Recommendations/ Reasons	Yes, on score
Important Dates	Proposed start	1 June 2012
	Proposed end	31 March 2018
Capital Spending (RANDS ONLY)	ETC Excl Borrowing Cost	R 38 146 320 732

Budget per month for 2012/13	Apr	-
	May	-
	Jun	-
	Jul	-
	Aug	-
	Sep	-
	Oct	-
	Nov	-
	Dec	-
	Jan	R 241 500 000
	Feb	-
	Mar	-
7 Year Projection and beyond	Year 1	R 241 500 000
	Year 2	R 2 649 228 750
	Year 3	R 5 014 335 375
	Year 4	R 7 450 995 431
	Year 5	R 8 543 417 203
	Year 6	R 8 203 076 040
	Year 7	R 6 043 767 933
	Total 7 Year Plan	R 38 146 320 732
	Beyond Corporate Plan	None planned
Foreign	Localised / Programmatic Procurement	Programmatic Procurement
	Pure Foreign Content	
Local	Pure Local Content (Balancing Formula)	

12 Annexure B – Reward/Benefit Analysis

This is covered in 6.1 Benefit Realization. Due to the all-encompassing nature of the project, it is embedded in the organisational metrics agreed with Transnet and the Stakeholder.

13 Annexure C – Risk Analysis

The final risk assessment workshop was conducted in Parktown Inyanda 4 Applet boardroom on the 02nd of February 2012 under the direction of Thulani Mkhungo.

Two general comments were noted:

1. Inability to find local suppliers components which can leads to inability to reach localisation targets.
2. Lack of planning & skills within operations to direct locomotives to a scheduled maintenance.

The results are detailed in Table 19 on the next page.

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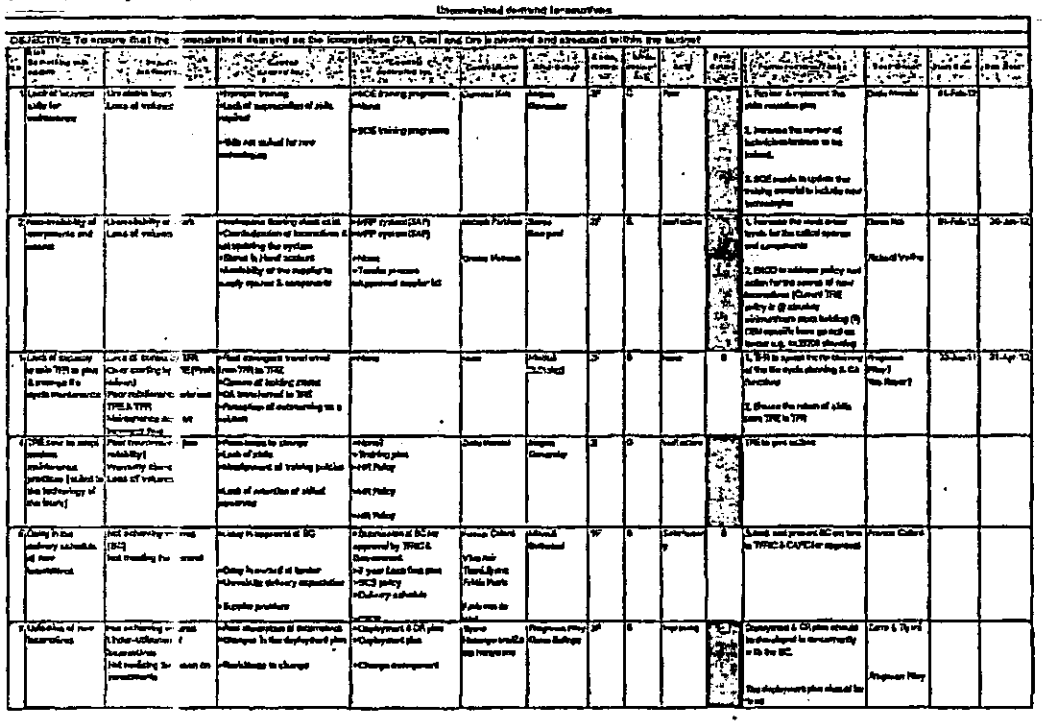
Table 18: Risk Management Schedule



Risk Management Schedule (continued)

No	Risk Name/Description [illegible]	[illegible]	Caused by	[illegible]	Control Owner	Risk Owner	Conseq. rating 1-5	Likel. rating A-E	RCE	Risk Rating	Further Actions/Tasks	Task Owner	Start Date
7	Lack of correct maintenance facilities at correct locations.	Inadequate & improper maintenance Locos long out of service due to traveling Not achieving volumes	>Transnet history e.g. lines were designed according to customers & previous job location programs	>None	None	Pila Ruper	2F	D	None	4	1. Move the maintenance depots according to the results of continuous studies done on the facilities & continuously adjust the plan. 2. Design of new locomotives to minimise frequency	Ragavan Pillay/Thabelo Ndlhlovu Stephens Parsons	
8	Poor maintenance or quality	Locomotives failure Train delays Loss of revenue	>Training module content not aligned with new rolling stock technology developments.	>SOE training programs	Dumand Kale	Frederik Register Programs Pillay/Pila Ruper	1F	D	Improving	6	1. Update the training content with the new locomotive technology features & improve the skills level of technicians 2. Ensure that the technicians are trained and certified 3. Assign engineers to the	Dumand Kale Vivo Nair Magna Tlamotse	
9	Poor network condition	Locomotives failure Train delays Loss of Revenue Reduce the span of locos	>Theft & vandalism >Poor preventative maintenance >Lack skills >Misalignment of processes	>Security >Training & Maintenance plan >Training	Logan Naidoo Johan van Aardt	Courier Molo a	2F	D	Ineffective	[illegible]	1. Continuously review the processes and align them with the existing network conditions 2. Update the training content/processes in line with the revised network updates	Johan van Aardt Johan van Aardt?	
	Poor Loco handling	Locomotives failure Train delays Loss of revenue Reduce the span of locos	>Inadequate training >Compromise the recruitment requirements >Poor distribution of information (communication of info e.g. Z circular, operational info etc.)	>SLR training program >HC recruitment policy >Communication channel	Johannes Makwela All RCEs	Tumelo Ntlokwana	3F	C	Improving	8	1. All RCEs should investigate if the communication channels exist and are effective. 2. Establish the proper communication channels if they are not available to ensure the information is received at the relevant level.	Manuel Buthelezi Manuel Buthelezi	

14 Annexure D – Stakeholder Analysis

Refer to 6.6 Stakeholder engagement, Cross divisional impact and Public participation

15 Annexure E - Independent Review of Capital Costs Policy

There has not been and independent review except for:

1. The input base cost of the locomotives which taken from prices paid against current tenders
2. The cash flow and escalation was reviewed by TFR Finance.

16 Annexure F – Checklist for the Business Case Submission

	NA	Yes	No
CORPORATE PLAN			
Has the background and purpose of the investment been clearly described such that the reader will understand the concept without a verbal briefing?		Yes	
Is there an indication on whether the investment will trigger further investment within the business unit or in other businesses within Transnet?		Yes	
Has the project been included in the Corporate Plan of the Operating Division?		Yes	
BUDGET			
If financial approval is required, is the project within current budgetary constraints?		Yes	
Does the investment value noted within the business case agree to the approved annual budget?		Yes	
If the project has not been budgeted for, have the reasons been clearly documented?	NA		
HUMAN RESOURCE IMPLICATIONS			
Does the project have any HR implications?		Yes	
BLACK ECONOMIC EMPOWERMENT IMPLICATION			
Does the project have any BEE implications?		Yes	
PUBLIC FINANCE MANAGEMENT ACT (PFMA)			
Is any PFMA approval required? (Annexure K))		Yes	
FINANCIAL EVALUATION			
Has the project undergone a financial evaluation? (If Yes, by whom?)			No
Has the evaluation been verified? Specify by whom (Internally or Independent?)			No
Have the pros and cons of all the options considered been documented		Yes	

	NA	Yes	No
within the business case?			

Finance Sign Off	
Name	
Capacity	
Signature	

	NA	Yes	No
TECHNICAL EVALUATION			
Has the project/issue undergone a technical evaluation? (If Yes, by whom?) Silva Nair, Capital Projects		Yes	
Has the evaluation been verified? By whom? (Internally or independent?)			No

Technical Sign Off	
Name	
Capacity	
Signature	

	NA	Yes	No
LEGAL / CONTRACTUAL ISSUES			
Are there any extra-ordinary legal implications?			No
Has legal input been obtained?			No
If opinion had been obtained, is it consistent with approval sought?	NA		

Legal Sign Off	
Name	
Capacity	
Signature	

	NA	Yes	No
REGULATORY			
Is regulatory approval/consultation required? If approval or consultation is required, provide details and also highlight timelines, deadlines etc. RSR – Refer to 7.2 Statutory and Regulatory Requirements		Yes	
PRESENTATION			
Will a presentation be made? If Yes, by whom? (Presentations should not exceed 20 minutes and 10 minutes for discussion/clarification) Presenter to be advised		Yes	
TAXATION			
Do I have written confirmation from Divisional Tax Department that all tax issues have been addressed? From whom? In what capacity?			No
Are there special tax issues arising through funding?			No

Tax Sign Off	
Name	
Capacity	
Signature	

	NA	Yes	No

	NA	Yes	No
ACCOUNTING			
Has the appropriate accounting treatment been considered, including possible issues listed below? • Capitalisation of costs as fixed assets (COPEX); • Deemed leases; • Deemed insurance; • Embedded derivatives; • Guarantees • Feasibility studies; and • Borrowing costs.		Yes	

	NA	Yes	No
GENERAL			
Does the proposal include all key/ critical assumptions?			
Is the project considered to be economically viable?			
Was the business case evaluated in accordance with the criterion set by Group Financial Planning in the Capital Project Evaluation and Approval policy?			
Has the financing method been identified?			
Does the business case clearly highlight the impact of the investment on the proposed funding mechanism on the gearing and other critical ratios of the business (Interest cover, ROA etc)?			
Is the discount rate used in the financial model the same as that provided in the WACC and Hurdle Rate policy?			
Has evidence of an independent confirmation of the facts/ assumptions been attached to the submission?			
Are the Financial Interim Review and Post Interim Review audit indicators included in the submission?			
Has the submission been approved by the appropriate delegated authority?			

17 Annexure G – Project Schedule

Refer to 5.5 Project Achievability.

18 Annexure H – Options Evaluated

Refer to 5.1 Identification of Options.

19 Annexure I – Resolution Requirements

19.1 Delegation of Authority (DoA) Approval Required

Project Amount: _____ R 38 146 320 732 _____

Depending on whether the project is seen or unforeseen, there will be different levels of approval required. Indicate below whether or not this project is foreseen or unforeseen:

Foreseen - Yes		Unforeseen	

Approving body:

Operating Division EXCO/CEO		Acquisitions & Disposals Committee	
Transnet Group CAPIC/GCFO		BOARD	
Group Exco/GCE		PFMA Approval Required - Yes	

19.2 Purpose for Submission

	First approval for this business case - Yes	
	Project is not included in the current approved Corp ate Plan	
	Application to Increase ETC &	Approval for spend wrt increased/transferred ETC and ito the current approved Corporate Plan
	Application to Transfer ETC &	
	Application to spend on current approved ETC and it	the current approved Corporate Plan
	Application for a change in scope (excluding project melines) in the current approved Business Case	
	Re-application to commence a project where comm cement has been delayed by more than a year*	
	Application for condonement – full motivation from e divisional CE must be included	

19.3 Information Relating to the Purpose of this Su mission

Budget Line Number(s) 11113.11 - Demand Driven - 465 comotives GFB 171mt Diesels
11113.12 - Demand Driven - 599 comotives GFB 171mt dual voltage Electrics

Existing Warrant Number(s): NA

20 Annexure J: Divisional Specific Requ rements

Depending on the specific operating divisions various inte al documents may be required including:

- CAP forms, NA
- Functional Expert Approval Sheet NA
- Asset write-off's details and their values NA
- MOU's NA
- SLA's NA – w l be developed with TRE
- *Customer Contracts* NA
- Rental Agreements NA

21 Annexure K – Letter to Board and Acquisition Disposal Committee

Will be provided after approval by the Chief Executive, Transnet Freight Rail on his return.

22 Annexure L – Letter to Board of Directors

Will be provided after approval by the Chief Executive, Transnet Freight Rail on his return..

23 Annexure M – Letter to Shareholder

Will be provided after approval by the Chief Executive, Transnet Freight Rail on his return.

Appendix 28 622

EXCERPT FROM THE DRAFT MINUTES OF THE MEETING OF THE TRANSNET FREIGHT RAIL INVESTMENT COMMITTEE (TFRIC), HELD IN THE XIVONO BOARDROOM, INYANDA 2, PARKTOWN, ON FRIDAY 09 MARCH 2012 AT 09H00.

13.9 Procure 1064 locomotives for TFR General Freight: R43 373 billion

The committee **RESOLVED** to support the business case subject to:

- Rephrasing the key assumptions (clause 5.6)
- The business case being reworded.
- The checklist to be signed off by the relevant parties
- The financial model to be included in the business case.
- The retention percentage to be reviewed.
- The expansion and sustaining components to be reviewed.

Appendix 29 623

MINUTES OF THE TRANSNET CAPITAL INVESTMENT COMMITTEE MEETING NO 12/3 HELD ON MONDAY, 19 MARCH 2012 AT 14:00 IN BOARDROOM, 4623, 46TH FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

8 MATTERS FOR DISCUSSION/APPROVAL

8.1 Procurement of 1064 New Locomotives (ETC R38 146 million)

8.1.1 The purpose of this submission is to obtain approval:

(i) To procure 1064 locomotives for General Freight as set out in Business Case version 0, dated 7 March 2012 in its entirety and without exemption;
(ii) For the estimated cost of R38 146.3 million; and
(iii) Which is to commence on 1 July 2012 and be completed by 31 March 2019.

8.1.2 The Committee deliberated on whether the business case should be approved at this meeting, on the basis of the presentation, notwithstanding the fact that the submission was not included in the pack.

8.1.3 The Acting Chairman stated that the submission should be submitted to the Committee members for their review and comments should be forwarded to Mr Gillman. He stated that Mr Gama and himself will decide on an external party to review the business case and provide a risk assessment. — Mr Gillman; Messrs Singh/ Gama

8.1.4 The Committee **RESOLVED** that it does not recommend this business case for approval to the Group Executive Committee. A Special Capital Investment Committee meeting should be held to deliberate on the business case. — 12/3/8

locomotives required, depending on the operational efficiencies.
-The contracting and procurement strategy will address these risks.
-The high level risks that Transnet needed to mitigate against, were built into the tender e.g. Delivery schedule risks; volume risks etc.

8.2.6 Ms Pillay stated that the NPV's on page 9 of the submission gave rise to her query and as the NPV's have been amended, her concerns have been addressed.

8.2.7 The Committee **RESOLVED** that it recommends that the Group Executive Committee approves:

- The acquisition of 1064 locomotives for the General Freight Business.
- Estimated total costs of the acquisition of R38.6 billion as per the Corporate Plan (excluding the potential effects from forex hedging, forex escalation, other price escalations and borrowing costs). 13/4/6

Appendix 30

PRIVILEGED AND CONFIDENTIAL

MINUTES OF THE TRANSNET CAPITAL INVESTMENT COMMITTEE MEETING NO 12/4 HELD ON MONDAY, 21 MAY 2012 AT 14:00 IN BOARDROOM, 4901, 49TH FLOOR, CARLTON CENTRE, 150 COMMISSIONER STREET, JOHANNESBURG

Resolution No/
For attention

1 WELCOME, CONSTITUTION OF MEETING, SIGNING OF ATTENDANCE REGISTER AND APOLOGIES

1.1 Welcome and Constitution of meeting

The Acting Chairman welcomed all the members and attendees and having noted that there was a quorum, declared the meeting duly constituted.

The attendance register was circulated for signature.

(*The numbering reflects the sequence of the meeting.*)

1.2 Present

Mr A Singh	Acting Group Chief Financial Officer (*Acting Chairman*)
Ms P Difeto	General Manager: Office of the Group Chief Executive
Mr S Gama	Chief Executive Officer: Transnet Freight Rail
Ms M Moses	Group Executive: Transnet Capital Projects
Mr K Phihlela	Group Executive: Commercial
Mr CA Moller	Chief Executive Officer: Transnet Pipelines
Mr D Maclean	General Manager Commercial: Transnet Port Terminals (*on behalf of Mr K Sociwa*)

1.3 In Attendance

Ms S Lund	General Manager: Public Policy (*on behalf of Mr M Gregg- Macdonald*)
Mr M Abdool	Chief Financial Officer: Transnet National Ports Authority
Mr G Bierman	Chief Financial Officer: Transnet Capital Projects
Ms N Galeni	Chief Financial Officer: Transnet Freight Rail
Mr L Gillman	Senior Manager: Investment Portfolio Management, Group Financial Planning
Ms D Moephuli	Group Treasurer
Ms T Naidoo	Chief Financial Officer: Transnet Pipelines
Mr D Struwig	Chief Financial Officer: Transnet Rail Engineering
Mr H Nxumalo	General Manager Infrastructure: Transnet National Ports Authority
Ms A Govender	Company Secretariat

1.4 Apologies

Mr B Molefe	Group Chief Executive (*Chairman*)
Mr M Gregg-Macdonald	Group Executive: Planning and Monitoring
Mr T Morwe	Chief Executive Officer: Transnet National Ports

34

626

Resolution No/
For attention

	Authority
Mr R Vallihu	Chief Executive Officer: Transnet Rail Engineering
Mr K Socikwa	Chief Executive Officer: Transnet Port Terminals
Ms S Pillay	Chief Financial Officer: Transnet Port Terminals

1.5 **Adoption of Agenda**

The agenda was adopted as tabled.

2 **SAFETY BRIEFING AND EVACUATION PROCEDURE**

The safety briefing and evacuation procedures for the 49th floor were conducted by means of a safety card.

3 **DECLARATION OF INTERESTS**

The Declaration of Interests Register was circulated to all members and attendees for signature.

4 **APPROVAL OF THE MINUTES OF THE MEETING HELD ON 19 MARCH 2012**

4.1 The minutes of the meeting held on 19 March 2012, were corrected and approved.

5 **MATTERS ARISING**

5.1 **Project Status Reporting to be rolled out through-out Transnet :**
Follow up with the Operating Divisions to understand why they have not complied with this requirement; what their concerns are; what the implementation plan for each Operating Division is and if those timelines are acceptable or not

5.1.1 The matter has been finalised.

5.2 **(i)Obtain Competition Commission approval for the Durban International Airport (DIA) site**
(ii)The post balance sheet events must be considered

5.2.1 (i)The Committee noted that unconditional approval was granted by the Competition Commission on 11 April 2012.

5.2.2 (ii)Mr Singh reported that the Competition Commission would not allow risks and rewards upon issue to pass prior to the Competition Commission approval; accordingly this was not a post balance sheet event. In the Annual Financial Statements the R1.2 billion will not be reflected as a capital purchase and will not form part of capital expenditure for the last financial year.

5.3 **Comprehensive fleet plans to be included in the business case submissions**
All fleet plans to be reviewed on an annual basis and should there be a change it must be tabled at this Committee for approval and if there is no change the Committee should be advised

		Resolution No/ For attention
5.3.1	The matter was deferred to September 2012.	Mr Gama
5.4	**(i)Transnet Port Terminals (TPT) Fleet Plan to be presented at the Investment Forum** **(ii)Insert a slide in the presentation on the assumptions on the maintenance strategy** **(iii)The Investment Forum will then provide feedback to this Committee and the Fleet Plan will subsequently be tabled at this Committee, for approval**	
5.4.1	(i)&(ii) The Committee noted that the TPT Fleet Plan was tabled at the Investment Forum in April 2012 and feedback was provided to TPT. (iii) The matter was deferred to August 2012.	Mr Socikwa
5.5	**Project team established to review the needs for the Port going forward: Review whether the forum is well attended; whether the correct level of people have been appointed to the forum and whether the forum has been mandated by the Chief Executive Officer's. Address the disconnect between TNPA and TPT which is evident at the forum**	
5.5.1	The Committee noted the feedback, as contained in the pack.	
5.6	**Richards Bay Terminal Commercial Plan Incorporating Transnet Freight Rail (TFR) Initiatives: Presentation to be made to the Investment Forum for evaluation from a singular and cumulative Transnet perspective, taking into account the Eastern Catchment Integrated Corridor Study (ECICS) and the Investment Forum will provide feedback to this Committee**	
5.6.1	The Committee noted that the presentation was made to the Investment Forum. The Investment Forum reviewed the Commercial Plan and provided guidance to TPT. TPT is currently in the process of preparing a new Commercial Plan for Richards Bay. The matter was deferred to July 2012.	Mr Socikwa
5.7	**Ascertain the root causes of the underspend and manage it on a monthly basis. If the root causes cannot be addressed during the year, the Committee should be advised to enable alternate planning to be considered**	
5.7.1	The matter has been finalised.	
5.8	**Provide feedback on spread sheet sent to the Operating Divisions requesting them to identify savings and other issues beyond their control e.g. contingencies**	
5.8.1	The matter has been finalised.	
5.9	**(i)A summary page to be inserted on the Market Demand Strategy Approval Planning Tool (ETC over R100 million);** **(ii)A plan outlining how the late submission issues will be resolved; and**	

Resolution No/
For attention

	(iii)Prepare a Capital Investment Committee Work plan for the feasibility studies and the investment plans	
5.9.1	(i)The matter has been finalised. (ii)The matter is in progress. (iii)The Committee noted that Mr Y Mohammed and McKinsey Consulting are currently formulating a work plan.	Mr Gillman
5.10	**Port of Richards Bay:** **(A)2011/12 Acquisition of City of uMhlatuze land (ETC R0.028 million)** **(B)Acquisition of private land (Bayside and Agricultural land) ETC R98.476 million) (Excl borrowing cost of R11.226 million) :** **(i)Transnet National Ports Authority (TNPA) should attempt to negotiate a first right of refusal of an option to purchase the land;** **(ii)Concurrently, TNPA should fix an escalation formula and advise the Committee what the purchase price will be in 4 years time;** **(iii)TNPA should review the base price, addressing the concern that R88 000 per hectare for farmland appears to be expensive;** **(iv)If TNPA decides to proceed with the purchase of the land and accelerate the cash flows, it must advise the Committee of the projects which will be deferred, in order to ensure that its 7 year plan cash flows are not exceeded overall; and** **(v)TNPA should investigate how the Ports Regulator would treat the acquisition of the land i.e. will a return be earned from the date of purchase**	
5.10.1	The matter was deferred to August 2012.	Mr Abdool
5.11	**Clarify the difference between the utilisation of the old locomotives and the upgraded locomotives i.e. 6.25 day turnaround time versus 4 day turnaround time and the impact on the financial analysis**	
5.11.1	The matter was deferred to June 2012.	Ms Galeni
5.12	**Procurement of 1064 New Locomotives (ETC R33 146 million):** **(i)Collate the comments on the business case** **(ii)Decide on an external party to review the business case and provide a risk assessment**	
5.12.1	(i)The Committee noted that the comments were collated and provided to the Acting Chairman for review.	
5.12.2	The Acting Chairman stated that: (i)The majority of the Committee did not comment on the business case; (ii)It was decided that Transnet will run a parallel process on the 1064 locomotives; (iii)Transnet needs to augment the business case from a Group perspective to ensure that it is addressing all the risks associated with the business case; (iv)The Board was requested to provide approval for Transnet to proceed with the procurement event and issue the RFP to the market, subject to Public Finance	

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Management Act (PFMA) and Board approval. The Department of Public Enterprises (DPE) and National Treasury will be engaged in the PFMA approval process;
(v)The business case will then be tabled for approval at the Board in October/November 2012 together with the approval of the procurement process and approval of the short list of bidders;
(vi)It is intended that the process of negotiating with the successful tenderer's will be conducted in November/December 2012; the award/signing of contracts in January 2013 and payments in February 2013;
(vii)A similar process will be followed with other major projects;
(viii)Each Board Acquisitions and Disposals Committee (BADC) meeting will be provided with an update as it relates to the procurement events; risks and enhancement of the business case and PFMA approval with DPE; and
(ix)In order to ensure that the financial risks of the transaction have been considered the BADC have seconded Mr Israel Skosana: Non-Executive Director; as a special member.

5.12.3 (ii)The Acting Chairman stated that Transnet has conducted the risk assessment and is engaging a multi-disciplinary team of transactional advisors to assist it with this business case.

6.1 **Capex Overview**

6.1.1 Mr Gillman took the Committee through the Capex Overview and the Market Demand Strategy Approval Planning Tool (ETC over R100 million), as contained in the pack.

6.1.2 He highlighted the following:
(i)The spend for April 2012 was disappointing; and
(ii)Variances and explanations. Cumulative April 2012: Group Financial Planning (GFP) has reviewed the variances and has considered proposed actions required in order to mitigate the variances. Accountable person/s in addition to the Chief Executive Officer's have been identified to track the variance on a monthly basis. GFP plans to create proposed actions for every variance, in view of the high capital spend. CEOs/Ms Moses

6.1.3 The Acting Chairman stated that:
(i)The new reporting format took into consideration the meetings held with the Group Chief Executive towards the latter part of 2011, where it was acknowledged that Transnet was not going to achieve the capital budget;
(ii)High level initiatives have been identified that need to be tracked to ensure that Transnet makes up the variances in each of the quarters;
(iii)In analysing the reasons for the under spend, particularly in TFR; TNPA and Transnet Pipelines (TPL) it was determined that R450 million is within Transnet's control. Provided that Transnet monitors and executes these actions by Q3 the R450 million will be made up;
(iv)The list of variances and explanations will be on-going and initiatives will be added onto this list, which will become a tracking tool to understand the status of the capital spend. This will inform decisions, if necessary, to accelerate capital

from next year into the current year; and
(v)With regard to the NMPP, Transnet Capital Projects (TCP) is comfortable that it will make up the spend during the year, however in order to provide a tracking mechanism, initiatives are required in order to understand whether TCP is meeting that objective.

6.1.4 With regard to the NMPP, Ms Moses stated that:
(i)Those budgets were made up from various activities, accordingly TCP will track all activities and report against the activities that made up the cost flow forecasts;
(ii)Currently the only unknown in terms of timing, is the appointment of the new engineering contractor and the time required for them to achieve the required productivity levels;
(iii)There is a raised awareness of the cost flows;
(iv)The close out of the pump stations is dependent on TCP completing the punch items and there may be some delay as a result of quality issues; and
(v)The forecast remains unchanged. Ms Moses

6.1.5 The Acting Chairman requested a plan, which can be monitored, indicating how TCP will make up approximately R120 million. Further, he requested that the initiatives that TCP is tracking be included in a schedule. Ms Moses

6.1.6 With regard to Page 1 of the report, the Acting Chairman referred to those months which have a high capital spend and stated that he has requested Mr Gillman and Group Procurement to analyse which projects gave rise to the spend in those months, to enable those processes to be managed so Transnet can meet the spending. Where the capital spend is specific to an Operating Division, that Operating Division should manage the process, however where it is transversal i.e. across Operating Division's, GFP will identify the capital spend to enable the relevant processes to be implemented.

6.1.7 The Acting Chairman stated that discussions have been held with TCP regarding a move towards an accrual basis of accounting/reporting for the majority of the projects being executed by TCP, by the end of June 2012. This should resolve the issue.

6.1.8 *Market Demand Strategy Approval Planning Tool (ETC over R100 m):*

Mr Gillman took the Committee through the submission, as contained in the pack. He highlighted the following:
(i)There are many business cases which have not met the deadline; and
(ii)An analysis was conducted of where spend is meant to have commenced e.g. items 7-17 indicate that there are budgeted cash flows, however these business cases have not been tabled for approval.

6.1.9 The Acting Chairman referred to the last column of the Market Demand Strategy Approval Planning Tool titled "Comments" and stated that items 10-17 have large ETC's, however the comments reflect that small amounts are required to be spent in the current year, accordingly he has requested Mr Gillman to identify an appropriate alternative governance process for the approval of amounts of R5-

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R10 million. This will enable the business to undertake the business case over the current financial year and into the next year, rather than place the business under pressure to undertake the business case and spend the capital in the current year.

Mr Gillman

6.1.10 Mr Struwig stated that Transnet Rail Engineering (TRE) will be on track by the end of Q1. He stated that the lack of purchase orders and unsigned SLA's will be regularised and in the interim TFR is accepting TRE's invoices.

6.1.11 Mr Abdool referred to the report and suggested that the context to the project be provided to prevent incorrect assumptions e.g. he stated that items 10 and 11 are projects which are currently in a pre-feasibility stage and it is not a case of TNPA falling behind. Accordingly the report should indicate when the project should be tabled at this Committee and when an Operating Division is falling behind.

6.1.12 Mr Gillman requested that the Operating Divisions forward him a list of all Group Feasibility Studies e.g. where TPT is dependent on TNPA or TFR for the feasibility study, this list will then be collated.

CEOs/Mr Gillman

6.2 **Capital Projects**

6.2.1 Ms Moses took the Committee through the submission, as contained in the pack.

6.2.2 She highlighted the following:

Performance:
TCP will change the format of the report to align it to the monthly report. Monthly performance will be indicated before quarterly performance.

6.2.3 *NMPP*:
At the next meeting TCP will report against the activities that made up the cost flow forecasts.

Ms Moses

6.2.4 *Approvals of submissions by Group*:
TCP has made good progress in concluding a number of these issues.

7 **SUBMISSIONS FOR NOTING**

7.1 **Investment Forum Report**

7.1.1 The Investment Forum Report was taken as read and noted.

7.2 **TPT: Export trippers P1 and P2 (Increase in ETC from R10.3m to R19.6m)**

7.2.1 Mr Maclean took the Committee through the submission, as contained in the pack.

7.2.2 The purpose of the submission is to note TPT's approval of the increase in funds for the replacement of the Export Tripper Cars by R9.3 million resulting in an

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overall increase in the project from R10.3 million to R19.6 million.

7.2.3 The Committee noted the submission.

8 **MATTERS FOR DISCUSSION/APPROVAL**

8.1 **TFR: Upgrade of infrastructure systems between Bellville and Wellington (ETC R430 million)**

8.1.1 Ms Galeni took the Committee through the submission, as contained in the pack.

8.1.2 The purpose of this submission is to obtain approval for the capital project to upgrade the Infrastructure systems between Bellville and Wellington at an ETC of R430 million.

8.1.3 Ms Moephuli enquired into the following:
(i)The timelines in the presentation are different from the timelines indicated in the business case. She requested clarity in this regard as the dates will have an impact in terms of the financial models;
(ii)Could the project be accelerated given the critical nature thereof, as indicated in the submission; and
(iii)The following underlying risk was stated in the presentation: "Internal efficiency, particularly in having competent technical and contract administration staff available," She enquired whether these resources have been sourced.

8.1.4 Ms Galeni responded that:
(i)The project will close in March 2019;
(ii)TFR has mitigation actions in place to address the risk in the interim; and
(iii)The recruitment process is underway and good progress has been made in this regard.

8.1.5 The Committee deliberated on the R100 million which is required from PRASA.

8.1.6 The Committee **RESOLVED** that it approves the capital project to upgrade the infrastructure systems between Bellville and Wellington:
(i)In respect of Transnet Freight Rail at an Estimated Total Cost of R330 million; and
(ii)In respect of PRASA, at an Estimated Total Cost of R100 million, subject to Transnet Freight Rail obtaining a letter from National Treasury confirming that the funds are budgeted for, according to National Treasury's budget vote to PRASA and stating the year in which the funds will be disbursed, alternatively Transnet Freight Rail obtaining a suitable guarantee from PRASA. Mr Gama 12/4/1

8.2 **TFR: 2011/12 Capital notifications and capitalised locomotive, wagon and infrastructure maintenance**

8.2.1 Ms Galeni took the Committee through the submission, as contained in the pack.

8.2.2 The purpose of this submission is to notify the Committee of:
(a)The achievement of the TFR 2011/12 capital spend of R14 792 million (audited) against the initial budget of R14 692 million; and
(b)The increase in the ETC of the following capitalised maintenance programs for 2011/12 in respect of:
(i)Locomotives (Warrant R1Y3) from R1 847 million to the amount of R2 002 million;
(ii)Infrastructure (Warrant R1Y1) from R1 924 million to the amount of R2 423 million; and
(iii)Wagons (Warrant R1Y2) from R1 321 million to the amount of R1 372 million.

8.2.3 The Committee noted the submission.

8.3 **TNPA: Provision of services to lease sites in the South Dunes area (ETC R323 million)**

8.3.1 Mr Abdool took the Committee through the submission, as contained in the pack.

8.3.2 The purpose of this submission is to request approval:
(i)For the provision of services to the South Dunes lease sites within the RBCT rail balloon, business case version 1 dated 10 February 2012 in its entirety and without exception;
(ii)For the ETC of R322 731 291 (Excluding borrowing costs of R33 564 054); and
(iii)Which is to commence from the date on which the lease agreements with Vopak and Gas 2 Liquids have been concluded; however it is envisaged to commence on 1 April 2012 and be completed by 31 March 2014.

8.3.3 Mr Gillman raised a concern that the lease agreement had been signed prior to the capital approval and the lease committed specific capital. He stated that the lease agreement should be signed subject to capital approval or the capital approval should be approved, subject to the conclusion of a lease agreement.

8.3.4 Mr Hills: Manager, Planning & Development, Transnet National Port Authority stated that the 2 lease agreements have been signed, however the lease agreements were not subject to capital approval. Mr Abdool stated that this issue will be addressed in respect of future leases.

8.3.5 Mr Moller cautioned the Committee that TPL had previously experienced problems with Gas 2 Liquids.

8.3.6 Ms Naidoo referred to page 14 of the submission:
"Option 1 is based on market rental rates of R2.50 per m^2 per month which does not make this financially viable. To achieve a P1 of 1, Option 2 rental rates of R12.25 per m^2 per month should be charged." She stated that the assets would go into the regulatory asset base and enquired whether TNPA is comfortable that whatever the return is, the required return of R12.25 per m^2 will be achieved?

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8.3.7 Mr Abdool stated that:
(i)In terms of the pricing strategy TNPA is proposing to move away from the so-called "market related rental approach" to a concession type of arrangement whereby TNPA would set the rentals according to what the tenant can afford;
(ii)The rental would be structured around the period of payback; and
(iii)If TNPA falls short of the R12.25 per m^2, due to the manner in which the revenue regime operates with the Regulator, TNPA will still receive a fair return, except for the fact that TNPA will be subsidizing its rental business by its cargo due business.

8.3.8 Ms Moephuli enquired whether the client will determine the affordability; what will happen if that affordability is not on par with what TNPA requires from its pricing calculation and if the affordability is closer to the market related rental which TNPA does not want, how will TNPA resolve such a conflict.

8.3.9 Mr Abdool stated that:
(i)The rental will be subject to a negotiation process and the proposal is if TNPA cannot obtain the rental that it requires for good reasons, TNPA needs to consider to what extent it is willing to reduce the rental to be charged. Where the rental is not viable, TNPA will cease negotiations;
(ii)If TNPA does not receive additional revenue from rental this will burden the rest of the business and this is an issue that the Regulator is starting to consider; and
(iii)The surrounding areas are currently paying a rental of R2.50 per m^2.

8.3.10 Mr Snyman: Manager: Real Estate, Transnet National Ports Authority, stated that TNPA was able to secure a rental of R7.50 per m^2 for the current 2 leases. The rentals were offered by the market in an open tender process.

8.3.11 Mr Abdool stated that with regard to the new leases, the intention is to negotiate from R7.50 per m^2 closer to R12.25 per m^2 in order to ensure a more viable rental.

8.3.12 The Acting Chairman stated that:
(i)TNPA should prepare a model on the basis that all the tenants will be populated, thereafter the NPV and IRR should be reviewed;
(ii)A rental of R7.50 per m^2 for all the tenants in the area might be viable, consequently TNPA may not have to obtain a rental of R12.25 per m^2;
(iii)TNPA should prepare a plan detailing how it intends to secure the remaining tenants; what the demand is for the remaining lease sites etc. The Committee can then evaluate that plan and hold TNPA responsible to execute the plan in order to obtain a return on the properties;
(iv)The business case should include the 16 lease sites as the amount of R323 million is required to service all 16 lease sites; and
(v)The revised business case should state which projects TNPA is going to save in the current year to enable it to spend the R80 million in the current year. Mr Abdool

8.3.13 The Committee **RESOLVED** that it does not approve the provision of services to the South Dunes lease sites within the RBCT rail balloon. 12/4/2

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8.4	**TPT: National Fleet Plan**	
8.4.1	The Committee agreed that the concerns of the Investment Forum should be addressed and deferred the item to the next Committee meeting.	Mr Socikwa
8.5	**Group Weighted Average Cost of Capital Policy**	
8.5.1	Mr Gillman took the Committee through the submission, as contained in the pack.	
8.5.2	The purpose of this submission is to obtain approval for the Group Weighted Average Cost of Capital (WACC) Policy.	
8.5.3	Ms Naidoo stated that she has obtained a commitment from Mr Gillman that when he is calculating the Market Risk Premium (MRP) from a regulatory perspective he will utilise the methodology for the tariff application purposes.	
8.5.4	Mr Moller enquired into the WACC for TPT and TNPA being the same. Mr Gillman responded that the Ports were dealt with together which is in line with the 2011 WACC policy. The argument against having a differential WACC for TPT and TNPA is that both entities are owned by Transnet, accordingly any adjustments would be subjective. When further clarity is received from the Ports Regulator, the matter will be addressed.	
8.5.5	Mr Abdool stated that TNPA has requested that TNPA's and TPT's WACC be split and this request has been postponed to 2013, which is problematic.	
8.5.6	Mr Gama indicated that page 26 of the policy should be corrected to reflect the Transnet WACC as 12.20%.	Mr Gillman
8.5.7	Ms Galeni referred to Page 30 of the policy and enquired to what extent TFR was consulted, as the Transnet Freight Rail – Beta Peers has not changed since 2011. Mr Gillman responded that the comparison is with North American railways and the difficulty is that the majority of the railways in Europe are passenger railways, hence the sample selected.	
8.5.8	The Committee **RESOLVED** that it recommends that the Group Executive Committee approves the Group Weighted Average Cost of Capital Policy.	12/4/3
8.6	**Mitigation actions to achieve capital budget for 2012/13**	
8.6.1	This item was dealt with under item 6.1 of the agenda.	
9	GENERAL	
9.1	***Capital Investment Committee Mandate***	
9.1.1	The Committee noted the Capital Investment Committee Mandate.	

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For attention

10 **CLOSE**

10.1 There being no further business to conduct, the meeting was closed.

ACTING CHAIRMAN
DATE: 02/07/12

COMPANY SECRETARY
DATE: 29/6/2012

Date of Meeting Datum van Vergadering 21 May 2010.	Type of Meeting Soort Vergadering Capic
Name Naam	**Signature Handtekening**
B. Mclefe	apology
A. Singh	[signature]
P. Difeto	[signature]
S. Gama	[signature]
M. Gregg-Macdonald	Apology
C.A. Möller	[signature]
T. Morwe	Apology
Moses	[signature]
K. Phihlela	[signature]
A. Vallihu	Apology
K. Socikwa	Apology
D. Mckean (Obo Mr K. Socikwa)	[signature]
E. Lund (Obo Mr M. Gregg-Macdonald)	[signature]

Date of Meeting Datum van Vergadering	Type of Meeting Soort Vergadering
Name Naam	**Signature Handtekening**
Attendance	
A. Govender	[signature]
M. Abdool	[signature]
G. Bierman	[signature]
N. Galeni	[signature]
L. Gillman	[signature]
D. Moephuli	[signature]
T. Naidoo	[signature]
D. Struwig	[signature]
S. Pillay	Apology
H. Nxumalo	[signature]

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TRANSNET

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MEMORANDUM

To: Brian Molefe
Group Chief Executive

From: Anoj Singh
Chief Financial Officer

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.

   1.1. For the Group Chief Executive to note that McKinsey will be advised to partner with another firm with equal or better credentials than Letsema, for the procurement elements, due to the potential conflict with Barloworld and Letsema.

BACKGROUND

2. The GCE previously approved a confinement for transaction advisors, dated 10th May 2012, to KPMG, PWC, Aurecon, Letsema, McKinsey, Webber Wentzel, David Potter, Ledwaba Mazwai and MAC Consulting for the advisory services.

3. The objectives of this work is to assist Transnet in successfully awarding contracts for the manufacture and supply of diesel and electric locomotives while maximising value for Transnet and securing localization and industrialization benefits for South Africa.

DISCUSSION

4. The scope of the engagement for the transaction advisors include:
   4.1. Developing and augmenting the business case for the approval of the locomotives by the Transnet Board of Directors and Department of Public Enterprises;
   4.2. End to end requirements of the overall General Freight programme (locomotives, wagons, infrastructure etc based on validated volume expectations);
   4.3. Identifying value optimisation potential and technical optimisation options;
   4.4. Setting up the tender process in line with all requirements applicable to State-owned-companies (SOCs);
   4.5. Developing a shortlist of potential suppliers;
   4.6. Developing the contracts for the tender; and
   4.7. Developing finance and funding options.

5. Key project deliverables include:
   5.1. Updated and improved business case and relevant documentation for submission to the Transnet Board of Directors and Department of Public Enterprises;
   5.2. The business case should include the end to end requirements of the overall General Freight programme (locomotives, wagons, infrastructure etc based on validated volume expectations);
   5.3. List of technical value optimisation levers and estimated value;

   5.4. Design of an optimisation approach for joint value optimisation between Transnet and the selected supplier(s);
   5.5. Overall tendering process design for the locomotives;
   5.6. Request for proposal documentation;
   5.7. Short list of potential suppliers;
   5.8. Template contract for awarding of the tender; and
   5.9. Documentation for the final selection of preferred supplier(s).

EVALUATION

6. Four proposals were received:
   6.1. KPMG consortium – KPMG, Nkonki Inc, Norton Rose, Arcus Gibb
   6.2. PWC consortium – PWC, Siyaya DB Engineers, Cliffe Dekker Hofmeyer Inc
   6.3. McKinsey consortium - McKinsey, Letsema, Utho, Kolkanyang, Nedbank, ENS and ART (David Potter), and
   6.4. Webber Wentzel

7. The evaluation criteria was categorized into:
   7.1. Business Case;
   7.2. Technical Optimisation;
   7.3. Deal structuring and Finance for large capital investment projects;
   7.4. Procurement; and
   7.5. Legal.

8. The results of the Stage three evaluations are as follows:

Stage Three Evaluation – Technical Results (per category)	KPMG JV	PwC JV	McKinsey & Company / Letsema JV	Webber Wentzel
1. Business Case 5. Experience	59.88%	75.60%	89.42%	N/A
2. Technical Optimisation 5. Experience	63.96%	61.58%	90.74%	N/A
3. Deal Structuring and Financing 5. Experience	61.32%	82.32%	77.44%	N/A
4. Procurement and Legal 5. Experience	58.54%	70.09%	81.43%	70.34%

9. From the above, KPMG did not meet the technical threshold of 70% and is thus eliminated.

10. The results of Stage Four evaluations are as follows

Stage Four Evaluation – Price and BBEEE scorecard (per category)	PwC JV	McKinsey & Company / Letsema JV#	Webber Wentzel
1. Business Case 5. Experience	68.20%	86.24%	Not evaluated
2. Technical Optimisation 5. Experience	Not evaluated – threshold not met	86.24%	Not evaluated
3. Deal Structuring and Financing 5. Experience	65.51%	86.24%	Not evaluated
4. Procurement and Legal 5. Experience	28.50%*	86.24%	29.60%*

- Scores are the same as McKinsey scored the same for price and BBEEE for all categories
* - PWC and Webbers scored 0 (as per PPM) for pricing as they are double the price compared to McKinsey. Scores shown are only for BBEEE

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11. Group Finance and TFR Finance identified a key risk with regard to the legal services. On previous locomotive tenders, Webber Wentzel, assisted and drafted Transnet's negotiation strategy.

12. As Webber Wentzel is the recognised leader with regards to locomotive procurement and if not engaged by Transnet they would be engaged by one of the tenderers. This would put all of Transnet's previous knowledge regarding previous negotiation strategies potentially at risk.

13. The only reason Webber Wentzel scored low in the Stage Four evaluation was due to price but was rated highest in terms of technical ability.

14. The Tender evaluation process was concluded whereby the McKinsey consortium consisting of McKinsey, Letsema, Utho, Kalkanyang, Nedbank, ENS and ART (David Potter) were the preferred bidder for four categories (1) to (4), into which the evaluation criteria was categorized. Webber Wentzel was evaluated the highest amongst all bidders/consortia from a technical perspective and was the preferred bidder for the legal advisory work.

15. The Transnet Acquisition Council (TAC) awarded the McKinsey consortium the complete advisory services and split the award regarding legal advisory to Webber Wenztel. Refer to attached TAC resolution.

16. As the Locomotive RFP's have been advertised and will be issued in tranches and it is imperative that the RFP's be reviewed from all aspects by the transaction advisors before the supplementary RFPs are issued.

FINANCIAL IMPLICATIONS

17. The estimated value for locomotive advisory services required is R50 million. The %split of work is anticipated to be as follows:

    17.1. McKinsey – 35%
    17.2. Procurement partner - (Letsema replaced due to conflict with Barloworld) – 20 %
    17.3. Utho and Nedbank - 10%
    17.4. Webber Wenztel – 20%
    17.5. Advanced Rail technologies – 15%

BUDGET IMPLICATIONS

18. Although these costs were not explicitly budgeted for, sufficient budget exists in the Corporate Centre budget.

RECOMMENDATIONS

19. It is recommended that the Group Chief Executive approve the appointment of the McKinsey consortium for the complete advisory services and Webber Wenztel for the legal advisory work as Transaction advisors on the 1064 locomotive tender.

    19.1. It is recommended that the Group Chief Executive note that McKinsey will be advised to partner with another firm with equal or better credentials than Letsema, for the procurement elements, due to the potential conflict with Barloworld and Letsema.

COMPILED BY:

Yusuf Mahomed
Group Finance
Date: 14/4/12

RECOMMENDED/~~NOT RECOMMENDED~~:

Garry Pita
GM: Integrated Supply Chain Management
Date: 15/4/12

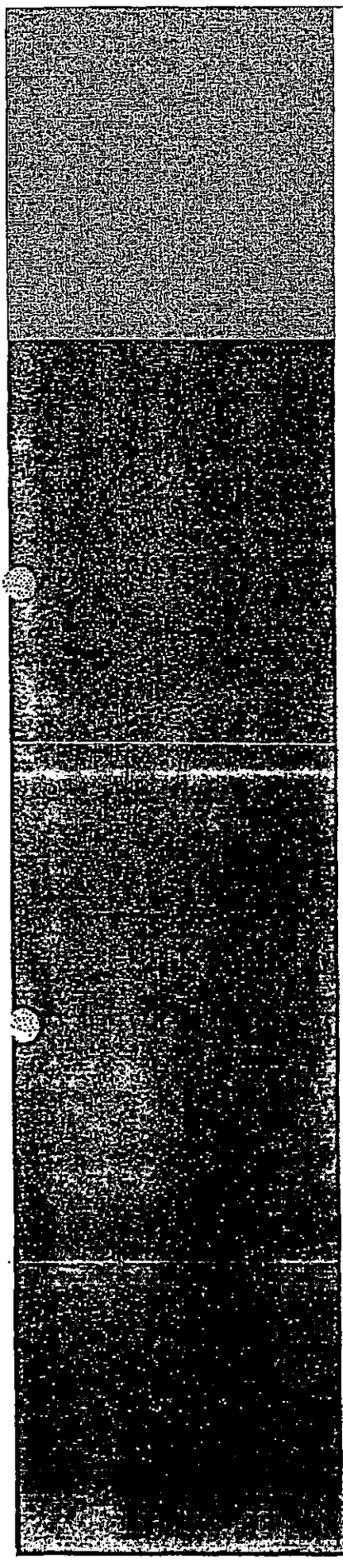
RECOMMENDED/~~NOT RECOMMENDED~~:

Anoj Singh
Chief Financial Officer
Date: 20/4/12

APPROVED BY:

Brian Molefe
Group Chief Executive
Date: 22.4.12

Appendix 32



Advisory services related to the acquisition of the 1064 locomotives tender

TRANSNET

RFP GSM/12/05/0447

Revised scope per request from Transnet

31 January, 2014

McKinsey&Company

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CONFIDENTIAL

Memorandum to
Anoj Singh, Group Chief Financial Officer, Transnet

Advisory services related to the acquisition of the 1064 locomotives tender

Recently, you asked us to provide support for commercial strategy and negotiation process design for the acquisition of the 1064 locomotives tender, referencing RFP GSM/12/05/04-7, and as agreed in the existing signed letter of intent for that RFP.

We understand that Transnet wishes to engage McKinsey at this stage to help clarify the commercial terms and provide commercial negotiation support. Per our discussions over the last week, please find below the agreed means to achieve this, including deliverables, approach, team set up, what we need from you for this project to be successful, and professional arrangements.

DELIVERABLES

- **Commercial negotiations**
  - TCO modeling of bids
    - Refine Transnet's existing TCO model to make commercial bids more comparable
    - Create and apply a methodology to make localisation proposals more comparable
    - Recommend questions for bidders to clarify assumptions and close comparability gaps
  - **Demand modeling**
    - Estimate cost/benefit under different locomotive delivery scenarios e.g., early, on time, late
    - Develop demand scenarios and calculate associated locomotive requirements for each scenario (Note: Transnet has asked that this be treated as a low priority request, time permitting after other deliverables)

- **ART support**
  - Provide benchmark pricing for major locomotive components
  - Recommend primary areas for price/margin negotiation
- **Supplier intelligence**
  - Provide supplier specific intelligence for use as negotiation levers, based on publicly available data (capacity, standard locomotive design vs. proposed bid, maintenance record etc.)
- **Negotiation strategy and process**
  - Detail negotiation process including success requirements at each stage and timelines
  - Refine commercial requirements as targets for negotiation stage
  - Compare current offers to requirements and identify gaps
  - Calculate the value of achieving or not achieving each target
  - Structure and develop a list of negotiation levers
  - Compile negotiation scripts for each vendor
  - Facilitate preparation for negotiation team before each session
- Commercial terms
  - Determine optimal range of delivery volume flexibility
  - Recommend an appropriate level of commercial penalties and incentives i.e. 5% or 10% for late delivery
  - Determine what commercial payment terms would be most advantageous
  - Advise on target levels for other material commercial terms if required

APPROACH

Transnet has indicated a desire to finalise negotiations by 15 March, unless the additional value from negotiation would materially outweigh any revenue losses from delayed locomotive delivery that would result from extended negotiation beyond this date. In this context, Transnet has requested McKinsey provide support until the end of February 2014, with any extension of support to be agreed as required by Transnet.

Further, Transnet has requested that McKinsey take an iterative approach, prioritising high level answers delivered quickly and refined over the four weeks, over a detailed set answers delivered at the end of four weeks.

As the process entered its final phases prior to your request for support, we feel it important to note that there are few remaining commercial levers that Transnet can exercise to reduce the cost of this transaction. The technical specifications have been frozen, removing one critical element of value capture. While the final price has not been agreed, we understand that the price difference between bidders is not significant, removing another form of leverage. Only two bidders have been selected as preferred for each of the diesel and locomotive transactions, and Transnet has been clear that each bidder is likely to receive a volume between 40 and 60% of the overall locomotive need for each traction type. Given the small volume range, this removes another critical commercial lever. Delivery timing has similarly been constrained, as Transnet has indicated that delivery must begin as soon as possible, so no bidder can be incentivized as the first to receive payment on this count. Negotiation timing has been removed as a lever, as Transnet seeks to ensure a down payment in the current fiscal year: in fact, this time pressure may yield commercial advantage to bidders should they sense an accelerated process. The primary remaining levers are benchmarking and total cost of ownership, which can be used to help marginally lower price, and allow Transnet give the larger volume to the more efficient bidder, but even this value may not be material relative to any revenue losses incurred by delaying the transaction.

In short, it is not clear that Transnet can obtain significant value through negotiation at this stage, given the levers that have been removed from consideration. Even if there is significant value at stake, Transnet may not be able to capture it due to the late stage of the process. In the interest of preserving our relationship with Transnet as high impact advisors, and playing our part as fiscal stewards, should examination of the data provided clearly indicate that the value available is immaterial or unfeasible to capture, we would withdraw from this engagement, and pro-rate our fees accordingly.

TEAM SET UP

We have worked extensively for Transnet on topics that are highly relevant to the objectives of this project, including the development of the business case for the 1064 locomotive transaction. We will build on this expertise and involve McKinsey team members from previous engagements where possible.

It is our standard practice to decide on the resources required with our clients. Based on our current understanding and experience with similar projects, we anticipate a McKinsey team consisting of two Engagement Managers, two Associates, and two Business Analysts in addition to our senior leadership team (Vikas Sagar, Norbert Dorr, Christina Planert, Ashvin Sologar, and Jan Weydringer). We have agreed that the team will be based in Webber Wentzel's offices along with your transaction team and other advisory entities (e.g. Regiments Capital, Webber Wentzel) to ensure close collaboration and knowledge transfer. We select high-performing team members with relevant local and industry experience.

We will additionally leverage: experts from Advanced Rail Technologies; our broad-ranging global logistics and procurement expertise; and our South African private and public sector insights.

WHAT WE NEED FROM YOU TO MAKE THIS PROJECT SUCCESSFUL

This project will require deep cooperation with and access to Transnet employees in order to be successful. Specifically, we would need from Day 1 of the project:

- An appointed transaction team with clear roles and governance
- Daily access to the transaction team and Transnet subject matter experts as required
- A shared physical working space with the transaction team
- Access to relevant data upon request (Note: Transnet has indicated that it will not provide complete access to the transaction data, but will provide access to individual data sets wherever there is reasonable need)
- Adherence to the agreed deliverables, as the strict time constraints imposed will not allow material room for ad hoc analysis

PROFESSIONAL ARRANGEMENTS

Our professional fees including expenses (travel and accommodation) for the 4-week project described above would be 10.23 million ZAR excluding VAT. Additional weeks will be charged at 2.48 million ZAR per week, excluding VAT. We would invoice you at the end of each month and our standard payment terms are 15 days from the date of issue of the invoice. Interest (at prime) will be charged on past-due payments.

Unless expressly agreed otherwise, we treat all our client relationships and reports as strictly confidential (with the exception of material already in the public domain). We do not publish our clients' names, materials, or reports without their permission and request that our clients do not use our name, refer to our work, or make our products available outside their organisation without our prior consent. In the rare cases that disclosure by either side is appropriate we discuss this with our clients and only proceed by mutual agreement.

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We are excited to work with you on this critical topic, grateful for your trust, and committed to Transnet's continued success.

Sincerely

Christina Planert

Principal

Appendix/attachments:

Summary of Professional Practices

Summary of Professional Practices

McKinsey & Company, Inc.[1], traditionally has followed several professional practices, summarized below, that are at the heart of our approach to client service. We consider it essential that our clients understand these practices.

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Effective client service usually requires our access to confidential information. We recognize that you will entrust such information to us with the expectation that we handle it carefully and professionally. We are committed to meeting the highest professional standards.

We will never disclose your confidential information, materials that we develop for you from your confidential sources or information that we believe conveys significant competitive advantage, to anyone outside our Firm without your prior consent, except in the unusual circumstance when we are legally compelled to do so. We will only use such information in connection with our consulting services for you, and only those staff members with a "need to know" will have access to such information.

All McKinsey personnel are apprised of their professional obligations to our clients. Among these obligations is the vigorous protection of confidential client information. In addition, all McKinsey personnel must acknowledge their understanding of this responsibility by signing a confidentiality agreement with McKinsey.

The work that we do with you also may include information developed from non-confidential sources and conceptual frameworks, approaches, and generic industry perspectives that do not contain your confidential information. We bring such information, frameworks, approaches, and perspectives to each new assignment, and any such information may be shared within our Firm and with other clients. We are able to do this because we have retained ownership of such information, frameworks, approaches, and perspectives (and of any enhancements thereto) while serving our clients.

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We aspire to a relationship based on trust and confidence, and we welcome the opportunity to discuss any areas of particular sensitivity you may have regarding the handling of confidential information. Where appropriate, we will enter into explicit confidentiality agreements.

COLLABORATING AND GETTING YOUR FEEDBACK

To ensure a structured and systematic dialogue about our joint collaboration and impact, it is our standard practice to ask for formal feedback from key client individuals (usually the Steering Committee) at the end of each engagement. We typically use our proprietary online tool to solicit feedback on our contributions towards the project's vision and goals. All data are secure and are used only as a basis for a dialogue with you on how to serve you better. The feedback is not used for evaluating individuals (neither McKinsey nor client team members).

SERVING COMPETING CLIENTS

It is the long standing policy of McKinsey to serve competing clients and clients with potentially conflicting interests (including in connection with merger, acquisition, and alliance opportunities) and to do so without compromising our professional responsibility to maintain the confidentiality of client information. We place primary reliance on the integrity of our professional staff to maintain such confidences. Nonetheless, we ensure that consultants who develop important insights about your company are not later placed in a situation of potential conflict. To assure this, consultants who had access to your confidential information will not be assigned, for a significant period following an assignment for your company, to a study for another client where such confidential information could be used to your material competitive disadvantage.

Consistent with our confidentiality obligations, the consultants who work with you are unlikely to know that other McKinsey consultants serve one of your competitors or another party involved in a potential transaction that you are considering or effecting. Similarly, you should not expect to be advised or consulted about our serving your competitors or such other parties.

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organization without our prior permission. In those cases when disclosure from either side may be appropriate, we will discuss this first and only proceed if we reach agreement.

Occasionally, we become involved in legal actions as witnesses, sources of information, or as a party because of our work with a client. If this should occur, we will advise you promptly and work closely with you and your legal counsel to coordinate our response. We ask that you hold us harmless and indemnify us in connection with associated damages and costs, including legal costs, except to the extent they are found to have resulted from our gross negligence or willful misconduct. Also, in the event that a substantial amount of McKinsey professional time is required to respond to the action, the cost of such time will be discussed with you and billed accordingly.

TERMINATION

We believe that either party should have the freedom to terminate the relationship at any time if it becomes evident that the potential value of the work does not warrant further effort. In the event that a project is stopped before completion, only the professional fees and costs incurred to that date are billed.

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The practices summarized above reflect key aspects of our basic approach to client service and reflect our commitment to maintain the highest professional standards. We would welcome the opportunity to discuss our professional practices with you.

Advisory services related to the acquisition of the 1064 locomotives tender

TRANSNET

RFP GSM/12/0 /0447

Memorandum of withdrawal

04 February, 20 4

McKinsey&Company

CONFIDENTIAL

Memorandum to
Anoj Singh, Group Chief Financial Officer, Transnet

Advisory services related to the acquisition of the 1064 locomotives

PURPOSE

The purpose of this memorandum is to inform Transnet of McKinsey's decision to withdraw from the provision of advisory services relating to the acquisition of the 1064 locomotives. The background and reasons for our decision are laid out below. High level guidance on the best way to add value to the transaction at this stage is included at the end of the memorandum.

CONTEXT

Transnet requested assistance from McKinsey to help clarify the commercial terms and provide commercial negotiation support for the acquisition of the 1064 locomotives. The high level scope of work agreed was as follows:

- **Commercial negotiation**
  - Use TCO modeling to compare bids and help identify areas for price negotiation
  - Estimate cost/benefit under different locomotive delivery scenarios
  - Use aggregated price benchmarking to recommend areas for potential price negotiation
  - Identify additional negotiation levers through publicly available supplier intelligence
  - Detail the negotiation process from its current state to a preliminary agreement with bidders
- **Commercial terms**
  - Recommend target commercial ranges for the terms identified and supporting negotiation arguments e.g. delivery flexibility, penalties and incentives

At Transnet's request, McKinsey spent the last week preparing for the work above by discussing similar transactions with our experts (maintaining Transnet's confidentiality at all times) and doing research on best practice in this area. The information gathered was applied to Transnet's particular situation using our knowledge of the current state of the transaction gathered through stakeholder interactions.

FINDINGS AFTER WEEK 1

Expert opinions and initial analysis suggests that we would not be able to add significant value through the requested activities at this stage in the process. The transaction itself is in such a late stage that few negotiation levers are available, and those that do remain are likely either low value or unreasonably difficult to apply given the remaining negotiation power and time available to Transnet. Experts repeatedly advised us that to add significant value, we would need to be engaged much earlier in the process, ideally 6-12 months before the intended closing date.

The advanced stage of the process leaves few terms open to change

- Technical specifications have been agreed and are not open for further negotiation. This is usually a key area where value can be added in a procurement transaction, and would be a primary means of reducing total cost of ownership
- Best and Final Offers (BAFOs) have already been submitted and preferred bidders appointed, so no material changes can be made to the commercial terms without creating significant risk of dispute by both preferred and non-shortlisted bidders
- The initial delivery schedule is fixed, so accelerating or delaying locomotive delivery to incentivise bidders is not an option for the first 3-4 years, after which point any delivery delay will have a limited NPV benefit

Limited time constrains price and local content improvement options

In the limited time available, it is unlikely McKinsey could catalyze further improvement in price and local content terms:

- Current pricing proposals are already below business case benchmark levels. This, combined with the fact that vendor offers appear to be closely clustered, suggests further reduction would require detailed analyses and preparation which could not be completed within the requested timelines
- Local content thresholds set by the DPE have already been met in current proposals, so further negotiation is of marginal value to Transnet here relative to the time that would be required to re-open the thresholds if desired

Few negotiation levers remain

Based on the context provided by Transnet, only a limited set of negotiation levers appear to remain, making it difficult for McKinsey to drive any improvement in the offers for terms still open for negotiation:

- As preferred bidders, vendors likely know they will be awarded some production volume, reducing pressure to negotiate
- The fact that alternate vendors have been retained in the case of contracting failure is not a significant lever: preferred bidders are usually awarded the contract and vendors typically know the process is open to dispute if the preferred bidders are disqualified
- Transnet has limited the locomotive volume split among preferred bidders to a maximum spread of 60%/40%, which translates to 50 fewer locomotives over 7 years for the secondary preferred bidder. This, combined with the size of the overall contract and the timeframes involved, makes the volume lever unlikely to be material to bidders
- Strategic value (e.g. the ability to claim that a supplier is the exclusive provider of locomotives to Africa's pre-eminent railway) is often important to major manufacturers even for small volume deals. As multiple vendors will be awarded, this lever is of limited use to Transnet

NEGOTIATION PREPARATION

In negotiations where buyer leverage is limited, McKinsey's approach to value creation requires comprehensive preparation so that we can support the creation of a controlled situation whose pace is determined by the buyer. However, this preparation requires significant time (usually months), far longer than Transnet's short timelines allow for

CONSIDERATIONS FOR THE NEGOTIATIONS

As Transnet drives this transaction to its conclusion, the greatest remaining value is most likely to be derived from understanding suppliers, determining appropriate value-capturing compromises and negotiation skill. A few considerations for the upcoming negotiations:

- Ensure there is a structured process in place to which all participants are aligned before engaging vendors in negotiation. Running a successful negotiation process requires intensive planning and coordination.
- Assign a team with a mixture of past negotiation experience, commercial acumen, technical knowledge and supplier insight. The experience and skill of the negotiation team will be a key factor in securing favorable terms in the current context
- Before interacting with suppliers, ensure team members have clear roles and responsibilities tailored to their skill sets
- Prepare for each session by understanding your goals for the negotiations with any particular supplier and by also considering what the supplier is hoping to achieve. Agree the trade-offs you are willing to make and thresholds you are not willing to cross beforehand: shift discussion of unexpected trade-offs to later sessions, so that team alignment and planning can happen beforehand

CONCLUSION

The late stage of the transaction, few terms open for negotiation and limited buyer leverage suggests that McKinsey could not add significant value through this engagement. As McKinsey strives to serve Transnet only on issues where we can have outsized impact, we must regretfully conclude that it is in neither our interests nor those of Transnet to continue this engagement.

We wish you the best of luck in these final stages of a purchase that will be critical to the future of Transnet and South Africa.

PROFESSIONAL ARRANGEMENTS

Per our summary of professional practices included in our original proposal, we believe that either party should have the freedom to terminate the relationship at any time if it becomes evident that the potential value of the work does not warrant further effort. In the event that a project is stopped before completion, only

the professional fees and costs incurred to that date are billed. For reference, summary of our professional practices is attached to this memorandum.

At Transnet's request, and in the course of coming to the above conclusions, McKinsey has incurred expenses including an Engagement Manager, an Associate and two Business Analysts staffed for one week, as well as expert time for interviews, and the professional services of ART. To cover these costs Transnet will be invoiced R1.65m, excluding VAT. This is significantly less than the original estimated weekly run rate, as this first week was supported by a smaller team than agreed for the full engagement, in order to better understand our ability to have impact first.

We would invoice you at the end of this month and our standard payment terms are 15 days from the date of issue of the invoice. Interest (at prime) will be charged on past-due payments.

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We regret that we cannot have significant impact on this topic under the circumstances, and hope that it remains clear we are committed to Transnet's continued success, and keen to support you wherever we believe we can make a meaningful difference for Transnet and South Africa.

Sincerely

Vikas Sagar

Principal

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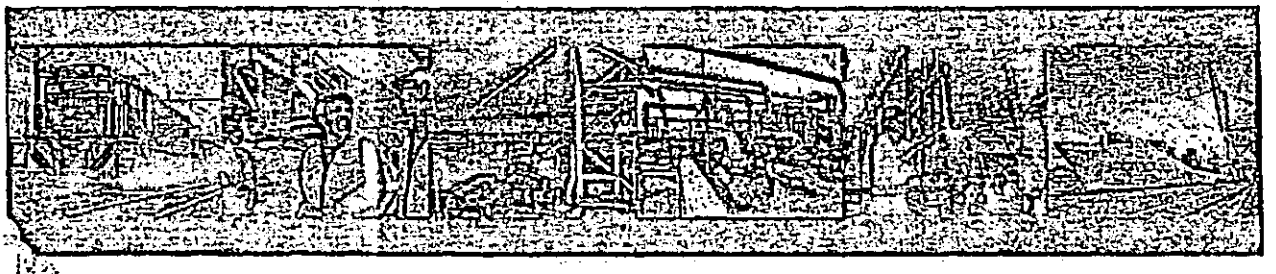
Appendix 34 658

Procurement of 1064 Locomotives for the General Freight Business



Date of Submission to BADC	18th April, 2013
Addressed To	Board Acquisition and Disposal Committee
Title of Submission	Procurement of 1064 Locomotives for the General Freight Business
Date of Review	23rd April, 2013

Contents

A. PURPOSE

This business case provides the rat ionale to invest in the profitable General Freight Business (GFB) by procuring 1064 new locomotives (465 diesel, 599 electric). This business case demonstrates a clear n eed to *accelerate locomotive deployment* to enable delivery against Transnet's Market D mand Strategy (MDS) and achieve South Africa's broader socioeconomic objectives. Th e new locomotive purchase will:

- Create value for Transnet by enabling TFR to deliver 170 mt by 2018/19 and thereby achieve its MDS targe . This will result in a positive NPV (R2.7 billion at the TFR hurdle rate of 18.56 p rcent and R34.1 billion at the TFR WACC of 12.56 percent), top-line growth, enh nced return on assets (ROA), and an improved environmental footprint.
- Lower the cost of doing bu siness in South Africa by enabling operational efficiencies that will increase c stomer satisfaction and facilitate a shift from road to rail.
- Create and preserve 28,000[1] di ect and indirect South African jobs, and R68 billion in economic impact through lo al supplier development.

A robust procurement strategy tha is aligned with Government socio-economic policies and appropriate governanc processes have been designed and instituted to ensure transparency, fairness, and v lue maximisation for Transnet and South Africa. A funding plan and forex management s rategy are detailed in the business case.

The risks that are inherent in a procu ment event of this nature have been identified and mitigation strategies are in place. Accordingly, it is recommended that the 1064 Locomotives Business Case be appr ved at a cost of R38.6 billion excluding borrowing costs.

[1] Proportional to MDS-related job creation of 28 000

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 economically 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:

- 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 of 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

requirements, desired localisation can be achieved for only a 2 percent average cost of localisation – an additional investment of R400 million. This equates to a highly attractive benefit cost ratio of 170 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 CDSP, 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.

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

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 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 tons 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

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., larger "super depots" for large-scale maintenance, with smaller stations for refueling 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	Siyabonga Gama	Anoj Singh
Group Chief Executive	TFR Chief Executive	Group Chief Financial Officer

Johannesburg, 18th April, 2013

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.

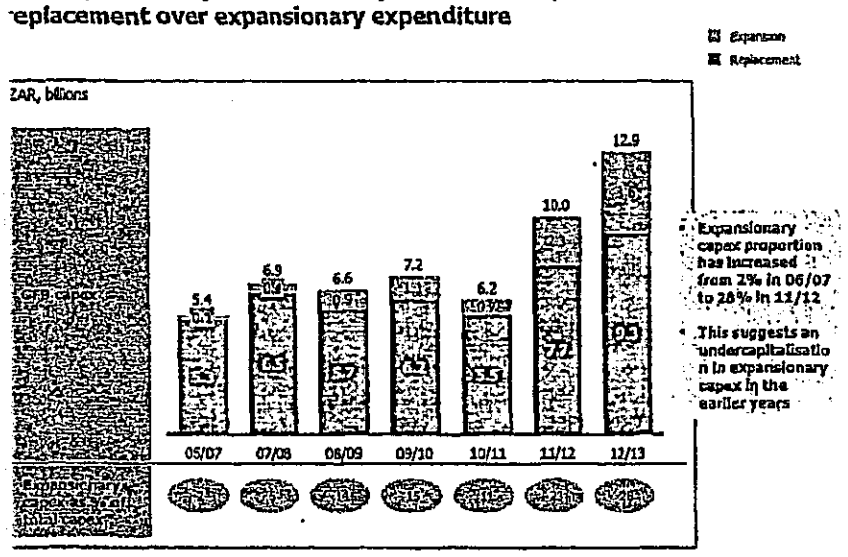
The MDS is informed by future planned investments that generate rail-friendly traffic and target rail-friendly traffic currently on the road. As part of this strategy, TFR has committed to grow its volumes by 142 million tonnes to 350 million tonnes by 2018/19. Over 60 percent of this growth is expected 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.

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.

This 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.

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 15[2] in Copenhagen) and hosting COP 17[3] 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. The exhibit below shows the cost saving of rail over road per given route and commodity.
- Rail produces lower emissions per gross tonne kilometre than road, thus assisting South Africa's GHG emissions reduction effort.

[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.

- Haulage by road damages road infrastructure, requiring a significant investment to repair the roads.

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.

EXHIBIT 2

Road to rail shift has a cost advantage in most commodities in key corridors at long distances

Rail more cost-effective | Road more cost-effective

Commodity	Durban- Gauteng[2]	Cape Town- Gauteng[3]
Electrical machinery	851	2,418
Automotive parts and accessories	1,062	3,558
Food and food processing	-1,333	3,890
Machinery and equipment	1,085	4,479
Other chemicals	1,266	4,857
Transport equipment	-1	5,098
Motor vehicles	1,266	5,124
Paper and paper products	1,266	5,407
Industrial chemicals	-292	5,407

1 The supply chain comprises direct costs (transportation, warehousing, admin) and indirect costs (lost sales, obsolescence, inventory carrying cost) for exports from Gauteng to relevant port in 2008
2 Land distance of ~707km from Gauteng to Durban
3 Land distance of ~1250km from Gauteng to Cape Town

SOURCE: Stellenbosch University; Transnet quotes, MEY; LOGOS model

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	13.05	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.

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	• Capture increasing coal export volumes • Eskom move from road to rail • Secure volumes through take or pay contracts	• Export TCM/ Maputo	8.1	• TCM to expand due to Limpopo projects (Vele and Makhado)
		• Eskom – Tuluka	6.5	• Transition from rail containers to tippler solutions in 2 years
		• Eskom – Majuba	5.2	• Eskom road to rail migration plan
		• Coal - Other	11.3	• Sustained strong demand for SA coal due to China and India emerging as net thermal coal importers
Steel and Cement	• Customer-focused value proposition to secure volumes • Revision of pricing strategy • Exploring markets ex-SA	• Coal (domestic)	3.8	• Driven by growth in other industries (e.g., Steel, timber)
		• Iron ore (domestic Sishen)	2.8	• Domestic and regional consumption of steel fueling demand for iron-ore & new iron ore export from Thabazimbi to Richards Bay/Maputo
		• S&C - Other	10.4	• 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	• Unlock capacity for junior miners • Capacity review process	• Manganese	8.3	• 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 Mining and Chrome	• Pricing aimed at market penetration	• Magnetite (Export Maputo)	2.4	• Demand from China driven by steel production
		• MMC - Other	9.6	• Gold ore and other minerals enjoy healthy demand
Containerised and Intermodal	• Containerise mineral products • Develop Freight hubs in key areas	• Coal (Eskom – Camden)	1.6	• Demand increase driven by increased electricity usage
		• Containers	1.6	• Rail container volumes to increase in line with Freight rail's objective of increasing market share along key intermodal routes such as the Natcor
Agriculture and Bulk Liquids	• Transnet Rail and Port capacity support for agri-logistics and rural infrastructure • Demand shift from road to rail	• Grain, maize, wheat and foodstuffs	2.1	• Demand increase driven by increased electricity usage
		• Other	4.5	• Increased over border demand from Botswana and Mozambique • Sappi expansion
Total			79.2	

2.3 Investment history and locomotive fleet run-out in GFB

Overview

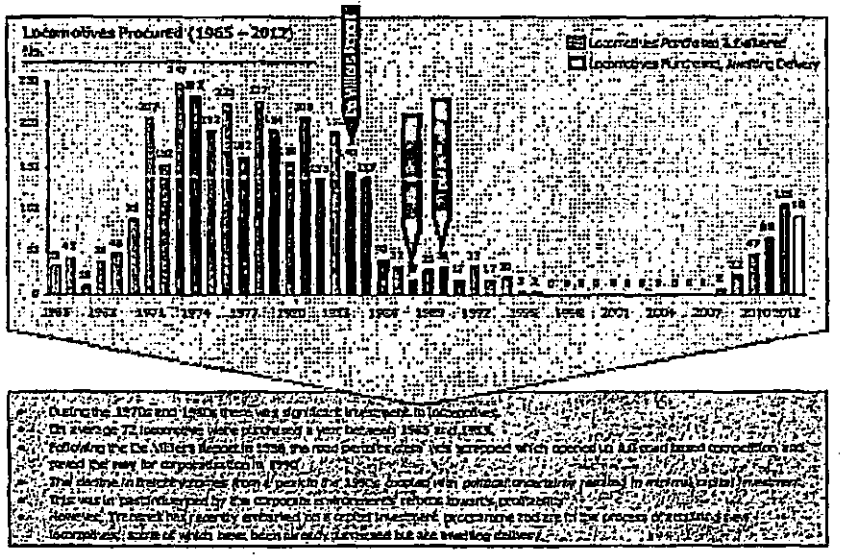
This section demonstrates that the current fleet is incapable of meeting demand. Half the fleet will need to be retired within 10 years and nearly the entire fleet within 20 years.

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: Team Analysis, Transnet Locomotive Modernisation Roll Plan – 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 if 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

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. 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.

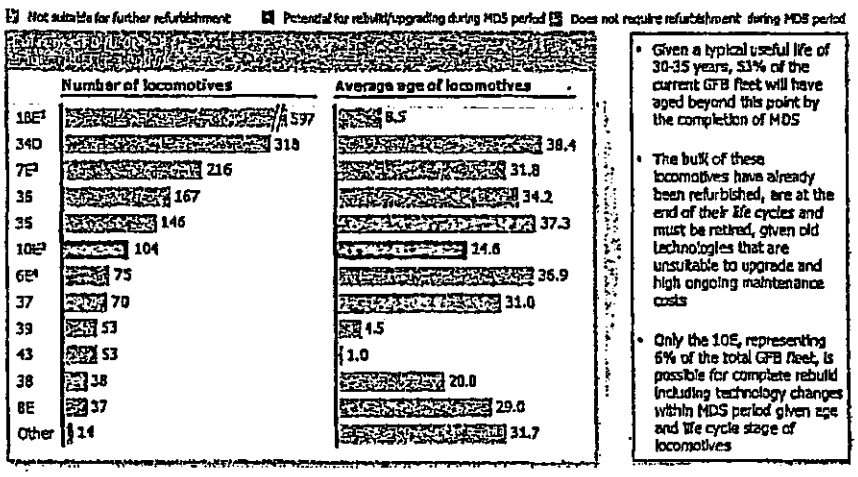
Purchasing new locomotives would allow TFR to depreciate its costs over a 30-year useful life. More importantly, due to the increased reliability that new locomotives provide, Transnet would be able to significantly increase the volumes it transports. This would drive substantially higher ROA for the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

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

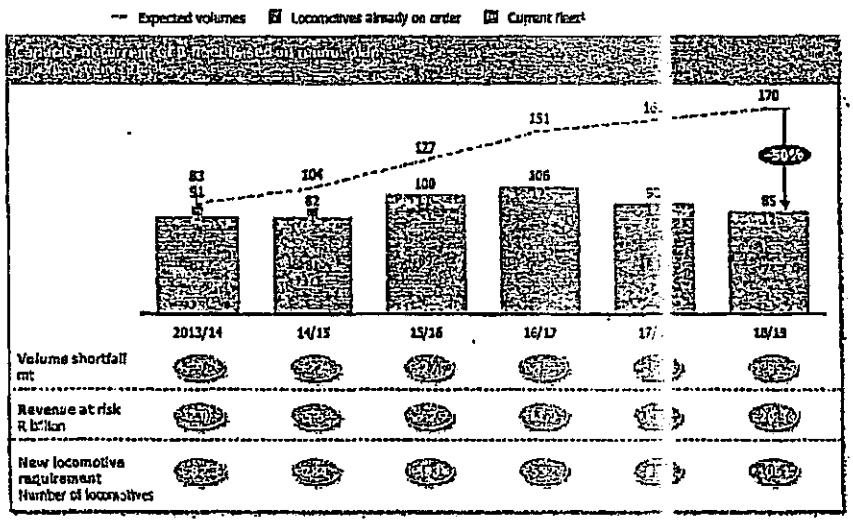


1 18Es show "young age" however are an upgraded version of 6E, which was purchased in the 1970s
2 Includes 7E, 7E1, 7E2, and 7E3
3 10E is included in fleet plan estimate
4 Includes 6E, 6E1

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.

EXHIBIT 8

Given the current trajectory of TFR's fleet runout 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 lines 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.
  - New locomotives required to deliver the increase in volumes.

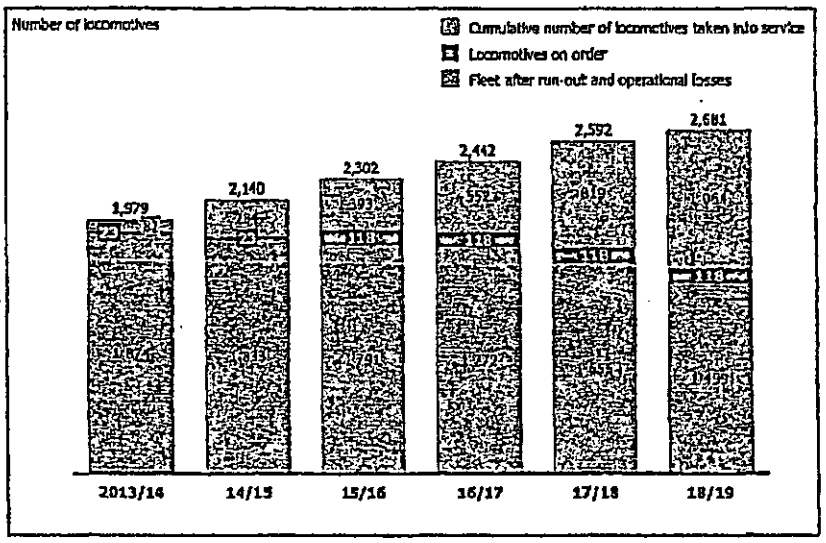
- Standardise the fleet to resolve both operational and maintenance difficulties – such as training drivers, planning route designs, and maintaining locomotives – that arise with a diverse fleet of multiple locomotive types.
- Capture improved operational efficiencies provided by new generation locomotives.

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

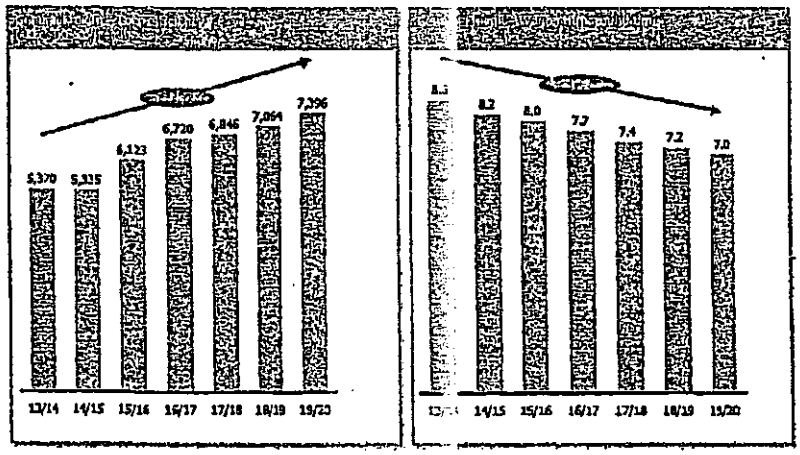


New locomotive procurement is a catalyst to unlock this demand through standardisation which increases flexibility to deliver increased operational efficiencies. This will increase customer satisfaction and enable the shift from road to rail. For example, the exhibit below shows how locomotive efficiency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

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 n three factors; firstly, an inherent improvement in utilisation of the current fleet; secondly, in gr ater 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 ir the MDS will depend on external market conditions, including the growth of the South African ecs nomy and changes in the demand for commodities shipped. Should conditions change (e.g., modifi ations to Eskom's new build timelines would have a significant impact on domestic coal requirement and a slowdown in GDP growth would result in fewer containers shipped), locomotive demand will c ange. As a result, locomotive procurement timelines must be flexible enough to adapt to potentia changes in volumes based on macroeconomic and demand conditions.

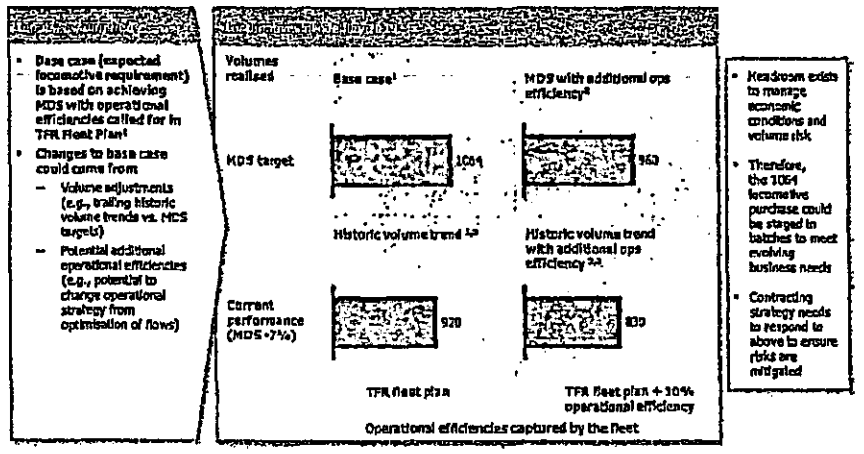
Operational efficiencies

The Fleet Plan will be affected by the operationa efficiencies captured from new locomotive technology. The plan takes the position that new locomc ives' improved performance will enable operational efficiencies to be captured (e.g., increased ava ability, reliability and operational flexibility and lower maintenance). Rightly – and conservatively – he 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 locom tives across routes that previously required multiple changeovers from AC to DC technologies).

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 benefits 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 2011-2013 shortfall vs. MDS of 7.37%

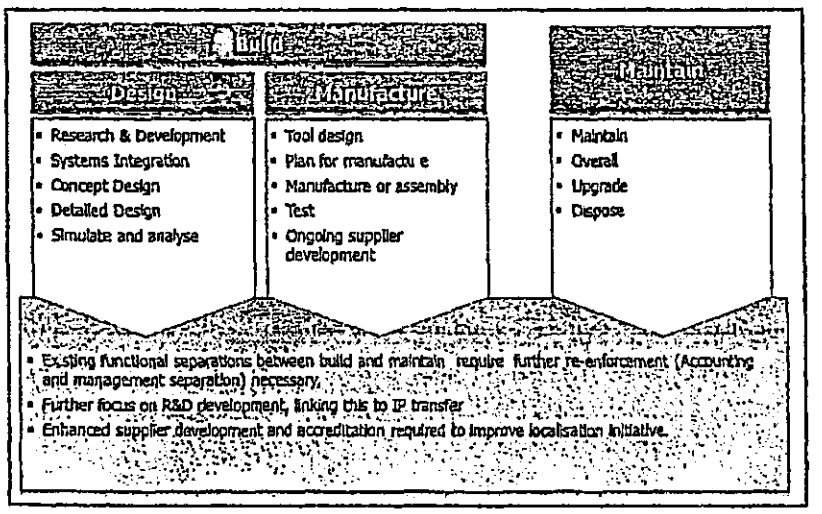
3.3 Role of Transnet Engineering (TE)

TE maintains the TFR fleet and in the past it has partnered with OEMs to provide local content. TE will be significantly impacted by the procurement of the 1064 locomotives – shifting from a maintenance-oriented organisation with relatively smaller builds to a manufacturing-oriented organisation. See the impact on maintenance in the section Impact of the new Deployment Plan, below.

The procurement of the 1064 is a TFR strategy to support MDS. The positioning of TE as a manufacturing entity with one or more OEMs will be influenced by the procurement as articulated in the RFP. The extent of TE's involvement with regards to its strategy will be determined by TE during its negotiation the relevant OEMs appointed as an outcome of the bidder evaluation and negotiations.

EXHIBIT 12

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



Impact of the new deployment plan

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 E5 (Deployment Plan) for more detail on TE's new maintenance philosophy and proposed changes.

3.4 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). Therefore, this will result in savings of over 31,000[4] tonnes of CO_2 and R5[5] 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

[4] Savings over the current locomotive emissions per MGTK

[5] Given the expected tariff structure from 2015

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

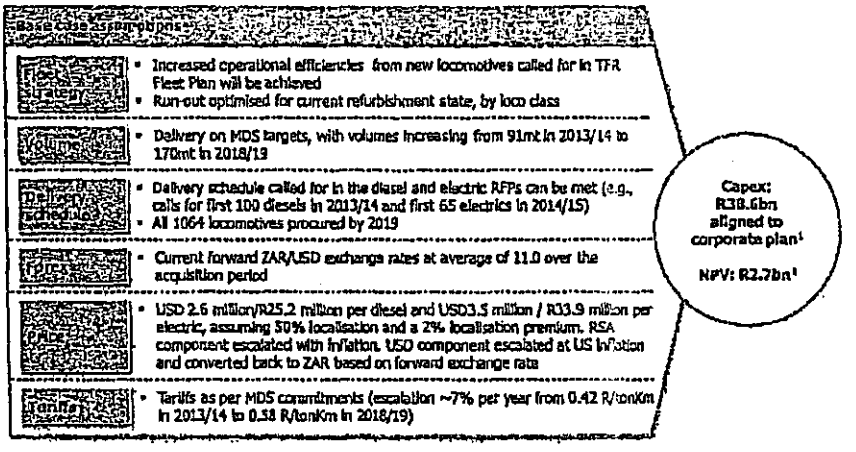
The capital expenditure for the 1064 locomotive procurement transaction is expected to be R38.6 billion, assuming current exchange rate assumptions hold. Using TFR's hurdle rate of 18.56 percent, the NPV of the transaction is R2.7 billion; applying TFR's WACC of 12.56%, would increase the NPV to R34.1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

EXHIBIT 13

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

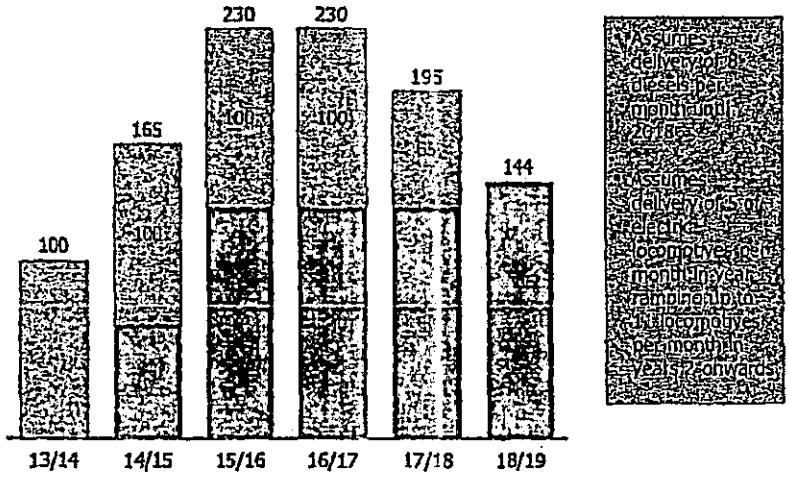
locomotives (e.g., increased availability, reliability and operational flexibility, lower maintenance costs). This fleet requirement is also driven by volumes, which are assumed to be TFR's MDS targets for GFB.

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.

EXHIBIT 14

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.

EXHIBIT 15

Existing fleet at 2013/14			
Fleet type	Number of locos	GTKm per loco	Cumulative GTKM
6E	75	33	2 507
7E	58	13	7 520
7E1	48	10	5 137
7E2	45	94	4 217
7E3	65	98	6 351
8E	37	1	19
10E	104	13	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 MTS 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.

EXHIBIT 16

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:

EXHIBIT 17

Volumes (net tonnes)						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
MDS target	91	104	127	151	131	170
Existing fleet	83	82	100	106	92	85
1064 locomotives	1	7	21	41	68	77
Volume shortfall	7	15	6	4	9	8

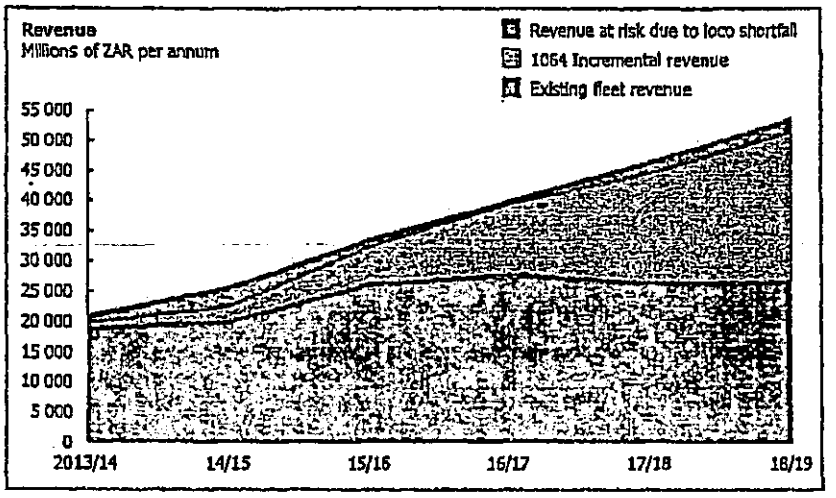
As per the exhibit below, putting volumes and tariffs together yields a view of revenues – MDS targets, revenues allocated to the existing fleet, revenues derived from the new locomotives, and potential shortfalls.

EXHIBIT 18

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

EXHIBIT 19

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:

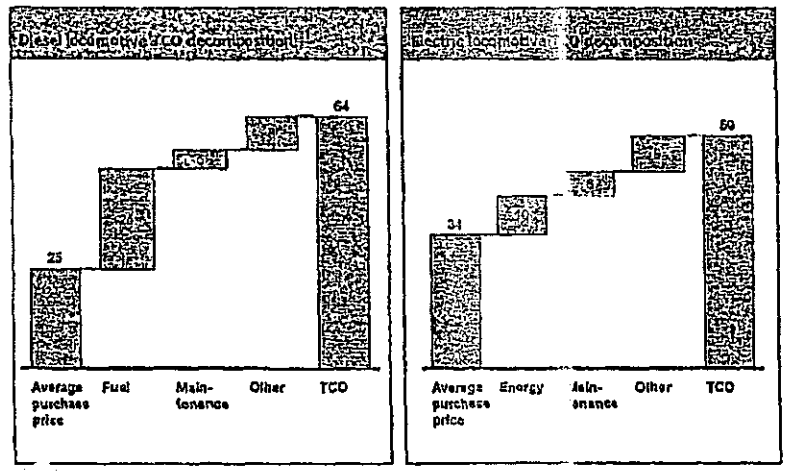
- **Purchase price.** As mentioned above, the purchase price is assumed to be R25 million (US $2.6 million) for a diesel locomotive and R34 million (US $3.5 million) for an electric locomotive in 2013/14. The purchase price of both diesel and electric locomotives assumes a conservative 50 percent localisation 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 20 for the TCO breakdown and Exhibit 21 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 22. 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.

- **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 23.
- **Insurance.** Assumes an expected wreck cost per year escalated at the average of CPI and PPI.

EXHIBIT 20

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

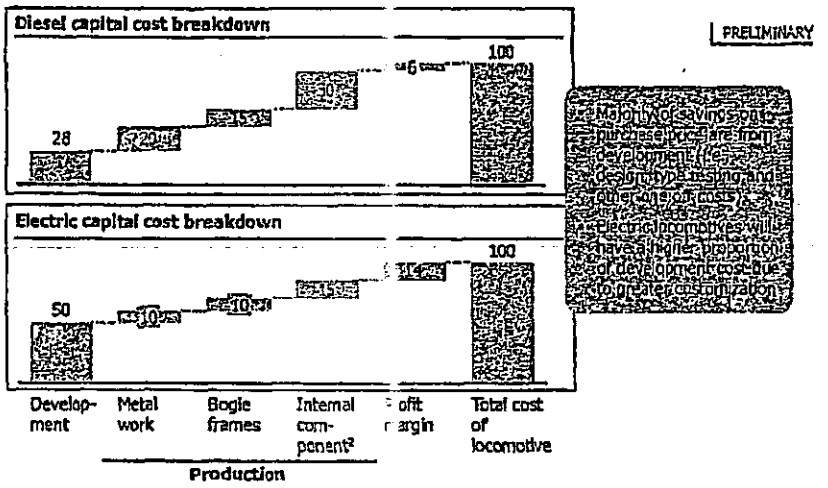
ZAR, millions



SOURCE: Transnet 1064 Loco Business Case, Expert interviews

EXHIBIT 21

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

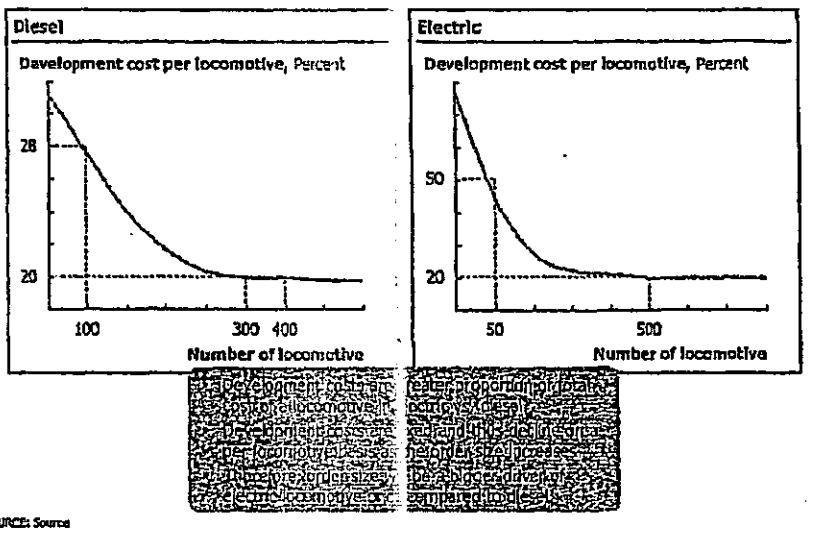


1 Based on standard locomotivemotives with an order of 100 locomotives demand
2 Traction motor, wiring, alternator, control system, etc.

EXHIBIT 22

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

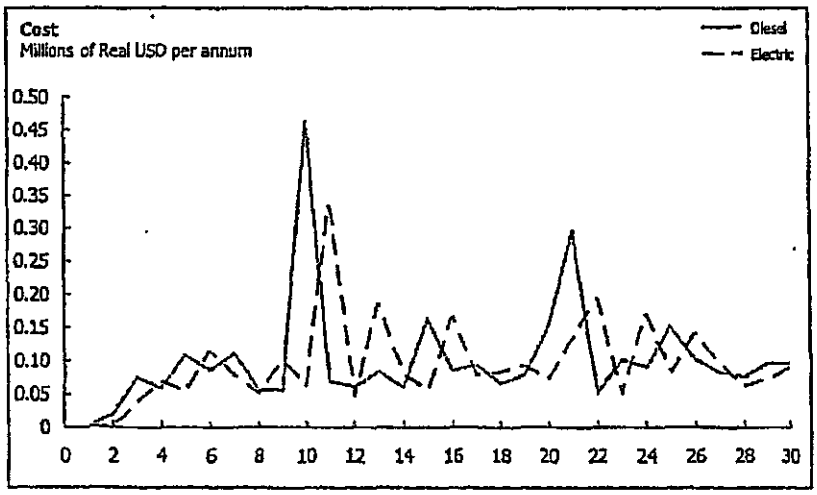
PRELIMINARY



SOURCE: Source

EXHIBIT 23

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 an aggressive 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 24

		Future 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 opex	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 opex	8 978	60	384	795	1 749	1 627	1 837	2 253
Total	50 656	6 844	11 023	15 079	15 575	14 944	14 075	2 890

- **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 capex 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 capex 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

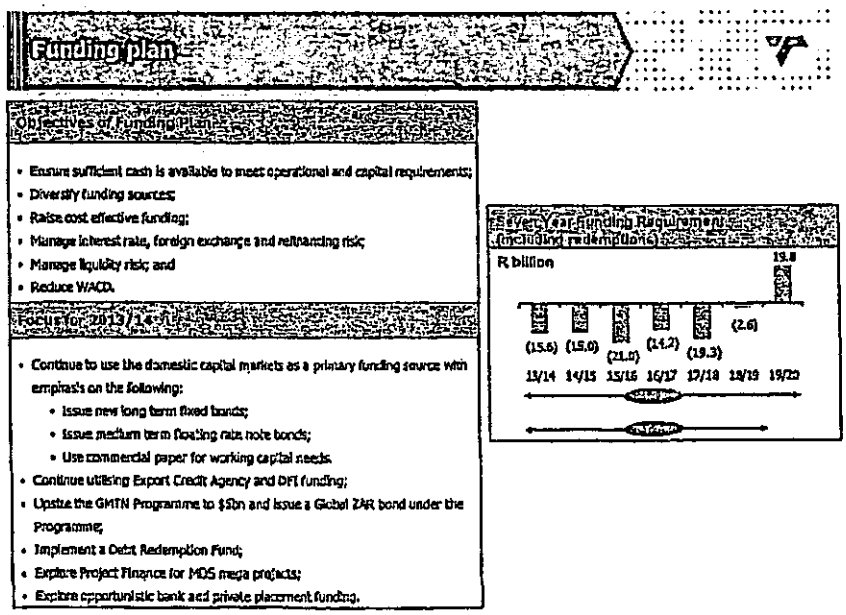
The business case proves to be neutral at the following volumes and tariffs:

- 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 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.

EXHIBIT 25



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.

5.1 Funding options

EXHIBIT 26: POTENTIAL FUNDING SOURCES FOR MDS

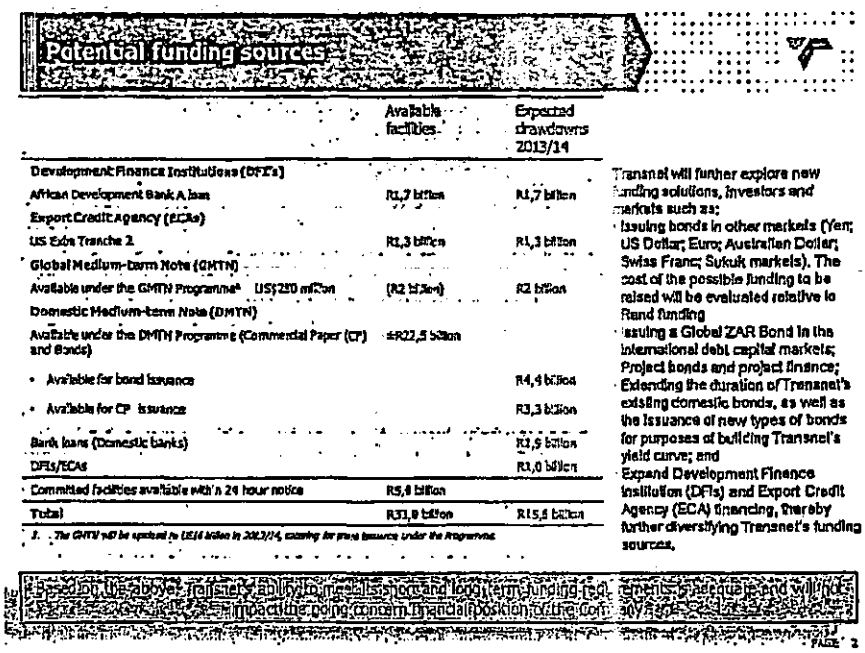


EXHIBIT 27

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	2.88	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.

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 at the magnitude of this transaction will add pressure to the availability of hedging lines for future MTBS 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 28

Spot	1 Year	2 Year	3 Year	...	...ear	5 Year	6 Year	7 Year
$R9.13	$R9.59	$R10.04	$R10.52	...	1.00	$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.

EXHIBIT 29

	Forward Rand value of imported component at current market rates	Impact of a 5% weakening of Rand against USD	Impact of a 10% weakening of Rand against USD
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 in GFB's workforce. GFB'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.

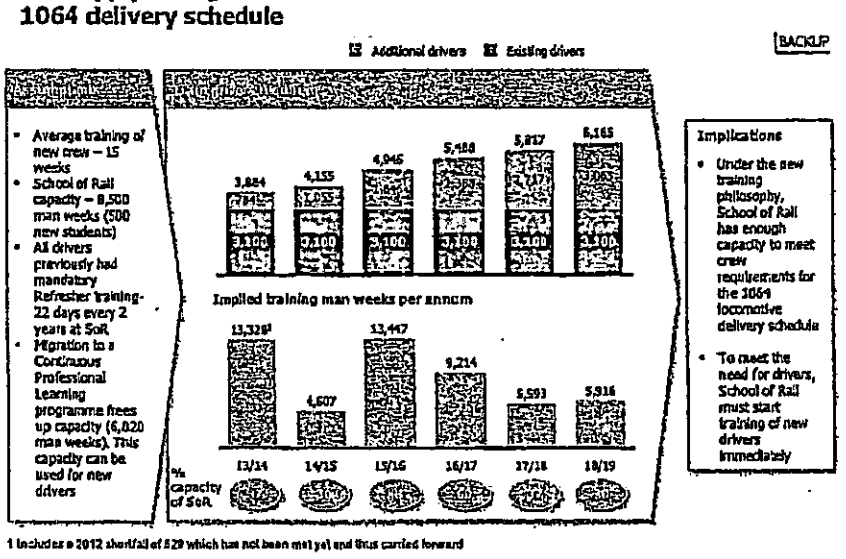
According to TFR's 7-Year Man Plan (see Section E10)2012 figures, TFR has a driver shortfall of 529. It is also estimated that over the life of MDS, TFR will require an additional 3 065 drivers from current levels. However, TFR only has capacity to train on average 500 drivers per year and, at its peak in 2015-2016, TFR will require an additional 791 drivers, resulting in shortages.

TFR has transitioned from a mandatory Refresher Training every 2 years to a Continuous Professional Learning programme, cutting training time from 22 days every 2 years at the School of Rail to 6 days every 2 years on site. This will effectively free up capacity at the School for additional training of new recruits.

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.

EXHIBIT 30

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



1 Includes a 2012 shortfall of 529 which has not been met yet and thus carried forward

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 FII 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.

EXHIBIT 31

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	6	2012-2019
Swazi rail link (SA Portion only)	0	2012-2015
Manganese General Freight 16mtpa	4	2012-2019
Gauteng Freight ring	0	2018-2019
Terminals	0	2012-2018
Maputo link	1	2012-2016
Natcor	0	2013-2017
Grand total	**31**	

EXHIBIT 32

Expansionary infrastructure expenditure timeline

Bold text = interdependencies with GFB volume expansion

BACKUP

Business focus	Preparation for growth (zero to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure expansion: Freeway/axle loading	• Increase axle loading • Increase coal line capacity to 81mt • Eskom 32mt project • Partial doubling of KCB-Nseal line • Waterberg – Phases 2-5 additional passing loops • Manganese 18mtpa (Hotazel – Coega) • Swazi rail link 15mt • Increase axle loading on Groenbult–Hoedspruit	• Increase axle loading • Increase coal line capacity to 81mt • Coal 91mt project (including Overall tunnel doubling) • Eskom 32mt project • Geluksplaas grade separation • Line tripling Broodsnyersplaas-Ermelo • Waterberg – Phases 2-5 additional passing loops • Manganese 16mtpa (Hotazel – Coega) • Ore line Phase 2A to 82.5mtpa • Swazi rail link 15mt	• Increase axle loading • Overall tunnel doubling • Coal 91mt project (including Overall tunnel doubling) • Eskom 32mt project • Line tripling Broodsnyersplaas-Ermelo • Swazi rail link 15mt • Doubling of all critical deviations
Infrastructure expansion: Electrical	• Increase electrical capacity on the AC section on the coal line • Upgrade section Rooikop-Newcastle. Manganese 16mtpa New and Upgraded sub-stations and OHTE	• Manganese 16 mtpa New and Upgraded substations • Ore line Phase 2A to 82.5mtpa power upgrade (including of 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 25KVAC Ermelo-Pyramid South	• Completion of the conversion of 3kV DC to 25KVAC Ermelo-Pyramid South • Coal 91mt project • Eskom 32mt project • Upgrade substations and electrical equipment • Waterberg – Phase 6 (22mtpa) • Commence with the electrification of Thabazimbi-Lephalale • Conversion of 3kVDC to 25kVAC on Ermelo-Pyramid South
Infrastructure expansion: Signaling	• Manganese 16mtpa	• Pyramid South – Lephalale Communication based authorisation (CBA) pilot installation • Manganese 16mtpa	• Commence with the re-signaling of the Coal line (CBA)

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

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.

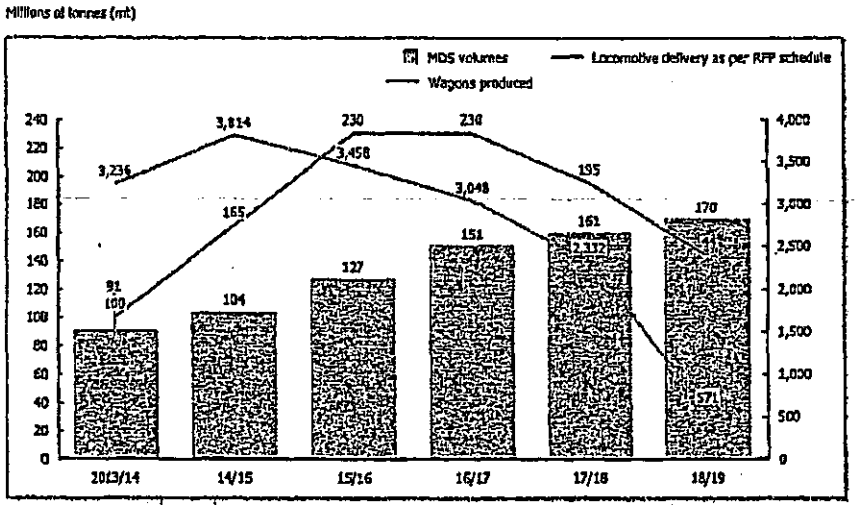
The MDS predicates growth over a number of flows and which extend over a number of operating areas where locomotives are changed because of traction changes dictated by the rail network infrastructure. Wagons are tightly linked to the commodities they transport while locomotives relate to the mass but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

Wagon production

EXHIBIT 33

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.

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.

EXHIBIT 34

Risk assessment and rating

High medium likelihood, high impact
High medium likelihood, medium impact/ Medium likelihood, high impact
Medium likelihood, medium impact
Low likelihood, low impact

Risk	Risk ranking	Mitigation action
Planning	D	• Specialized procurement and planning team • Conservative payment regimes to incent Mtce delivery • Optimize number of OEMs for planning required and benefit realized
Market	D	• Staged procurement strategy to maintain flexibility in delivery schedule and continuous monitoring of performance against MDS estimates • Execute against Market Development Strategy • Clean sheet costing to unpack key locomotive cost components
Exchange rate	D	• Hedge all foreseeable foreign currency-based expenditure as per Transnet policy
Operational readiness		• Develop people infrastructure plan • Upgrade training modules in line with new locomotives • Include maintenance staff training in supplier contract
		• Implementation of 7 year maintenance plan • Increase capacity by increasing production lines and shifts • Regular review of build programme that aligns TRE factories
		• Develop infrastructure expansion business plan • Implement infrastructure maintenance plan
		• The IATS[1] technologies as part of the new locomotives specifications • School of Rail to provide appropriate IATS training
Transaction governance		• Minimize size of working team and minimize dissemination information where possible while enforcing strictest confidentiality • Enforce protocol on document sharing and data rooms
Legal	D	• Ensure transparent procurement process with accountability • Contract with multiple OEMs
Geographic		• Explore long term supplier agreements with Eskom while also taking advantage of electric locomotive regenerative powers

1 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 60:20:20[6] 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 35, 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.

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 strategy[7] 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 options, and revising the fleet run-out strategy.

7.3 Market risk

The inherent risk is that the commercial sectors that the wagons and locomotives are built for will not achieve the anticipated market growth. This 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 and 2 in Exhibit 35 indicate the large swings in NPV due to MDS volumes not materialising with NPV dropping to R1.0 billion and –R20 billion, respectively. Volume sensitivities 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.

7.3.2 Tariffs

Exhibit 35 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.

EXHIBIT 35

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

[illegible] Greatest impact on NPV

	Sensitivities			Impact		
	Base case	Sensitivity 1	Sensitivity 2	Base case	Sensitivity 1	Sensitivity 2
[illegible]	• Delivery as per RFP: first 100 diesels in 2013-2014; first 65 electrics in 2014/15	• 6 months to complete procurement process • 12-month diesel production • 12-month electric production • ~120 diesels per year • ~125 electrics per year	• 8 months to complete procurement process • 18-month diesel production • 18-month electric production • ~120 diesels per year • ~125 electrics per year	• Volume impact: -49mt • Revenue impact: -R13.1bn • NPV: R2.7bn • CIC: 3.3x to 3.1x (2013/14)	• Volume impact: -110mt • Revenue impact: -R30.2bn • NPV: R2.2bn • CIC: 3.6x to 3.0x (2014/15)	• Volume impact: -155mt • Revenue impact: -R40.1bn • NPV: R1.5bn • CIC: 3.6x to 3.0x (2014/15)
[illegible]	• MDS volumes achieved	• Current performance vs. MDS (~7% below)	• Volumes grow with projected GDP	• NPV: R2.7bn	• Volume impact: -59mt • Revenue impact: -R16.4bn • NPV: R1.0bn • CIC: 3.3x to 3.1x (2013/14)	• Volume impact: -239mt • Revenue impact: -R67.9bn • NPV: -R20bn • CIC: 4.1x to 2.7x (2016/17)
[illegible]	• ~7% annual escalation to 2019 and CPI thereafter	• Escalation with CPI (~6%)	• Escalation at more than MDS (8%) to 2019; CPI thereafter	• NPV: R2.7bn	• Revenue impact: -R5.4bn • NPV: -R1.5bn • CIC: 4.0x to 2.9x (2015/16)	• Revenue impact: +R9.7bn • NPV: R7.8bn

7.3.3 Purchase price

Purchase price sensitivities detailed in Exhibit 36 indicate a moderate impact on NPV with a 10 percent increase in base price resulting in a –R1.5 billion movement in NPV. 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.

7.3.4 Costs

Exhibit 36 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 35 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.

EXHIBIT 36

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

	Sensitivities			Impact		
	Base case	Sensitivity 1	Sensitivity 2	Base case	Sensitivity 1	Sensitivity 2
4	• TFR Fleet Plan	• TFR fleet plan with 5% additional offdemdes	• TFR Fleet Plan with 10% additional offdemdes	• NPV: R2.7bn	• NPV: R5.2bn	• N : R7.8bn
5	• Hedging at current forward rate	• 10% devaluation of ZAR vs. USD	• 10% appreciation of ZAR vs. USD	• NPV: R2.7bn	• NPV: R6.3bn	• N : R5.2bn
6	• USD1.8m (diesel), USD1.5m (electric) before escalation	• Price increase by 10% over base case	• Price decrease by 10% from base case	• NPV: R2.7bn	• NPV: R1.2bn	• N : R4.2bn
7	• Costs classified as locomotives, wagons and infrastructure with an allocation of GFB overheads	• 5% increase on base costs	• 5% decrease in base costs	• NPV: R2.7bn	• NPV: -R0.8bn	• N : 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 has been mitigated by ensuring a minimise size of the working team and minimizing the dissemination of information where possible while enforcing strictest confidentiality.

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

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:

- 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 Enterprises (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 PPM, tender management control framework, and procurement best practice at each gateway on 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 DACs and/or bidders during high-value tenders
  - Reduction in timelines due to reduction in number of re-tenders resulting in faster capacity creation.
  - 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 Corruption 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 37

Approach to the 1064 Locos HVT

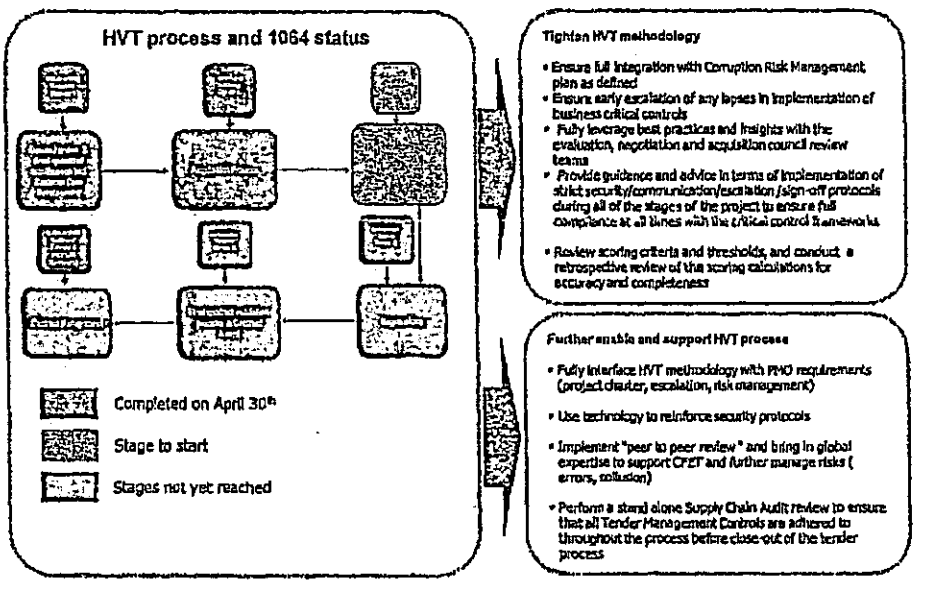


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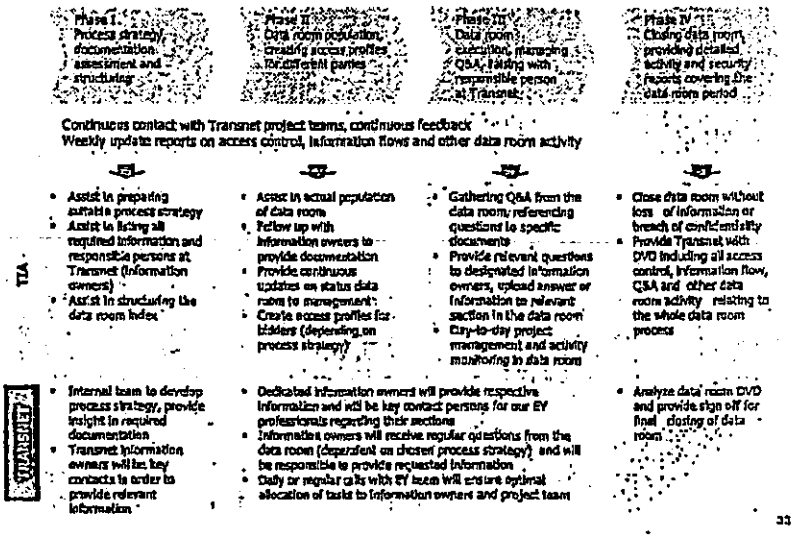
EXHIBIT 38

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.

9. Conclusion

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

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

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

D. PROCUREMENT STRATEGY

The benefits in this section are contingent on:

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

1. 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 199[illegible], as amended) by contracting for goods and services in accordance with a system which is fair, equit ble, 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 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;
- 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:

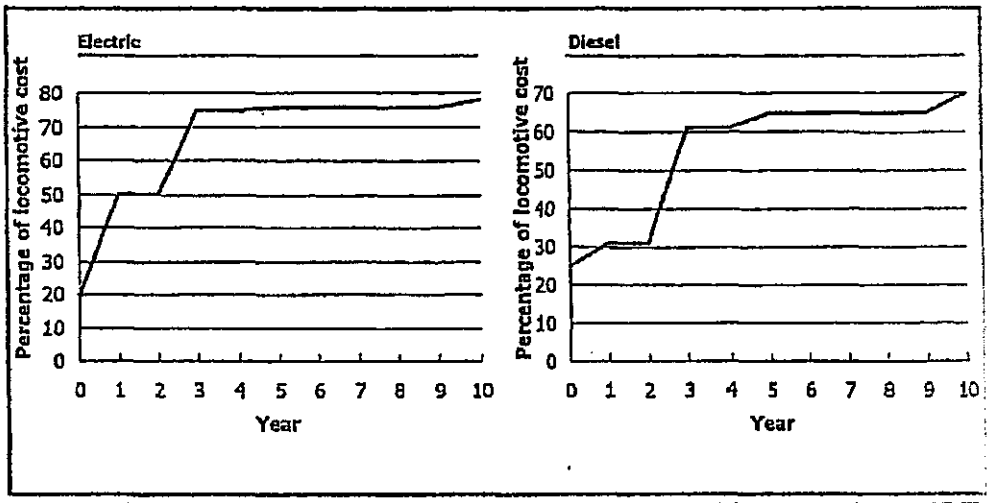
1. 55 percent for diesel locomotives; and
2. 60 percent for electric locomotives.

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.

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 39

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.

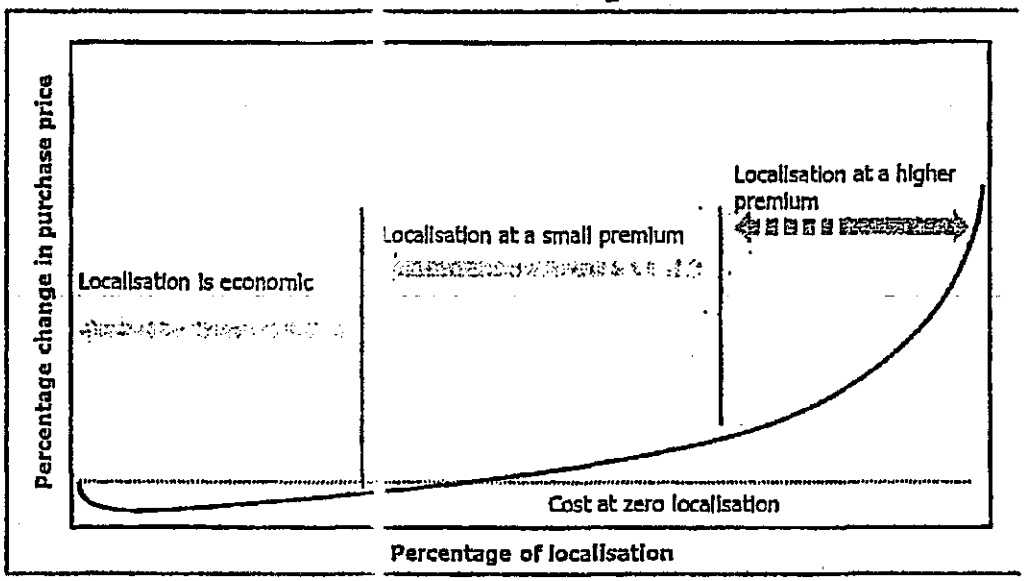
In certain areas, particularly in assembly and fabrication, South African localisation is economic especially given the order size of 465 diesels and 599 electric locomotives.

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.

EXHIBIT 40

Cost to localise increase with increasing level of localisation

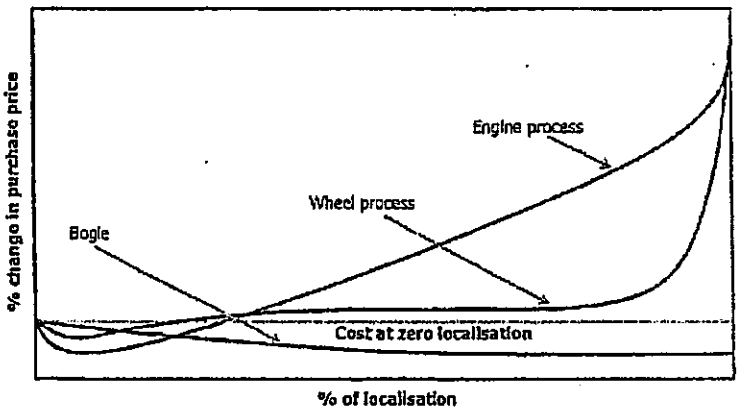


A grey zone exists where the limit of localisation is dependent on OEM investment in manufacturing in South Africa. Part of the way the Transnet RFP is structured is to attempt to capture as much localisation as possible within the grey zone without overly inflating the price premium paid.

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:

EXHIBIT 41

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.

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 42

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

Percent

Categories	Total cost %	Current local %	Target local %	Percentage of 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	4.90	67
Drivers cab	3	1	3	0.15	70
Auxiliary supply	3	0	3	2.12	73
Wheel system	2	0	2	9.10	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%		

EXHIBIT 43

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

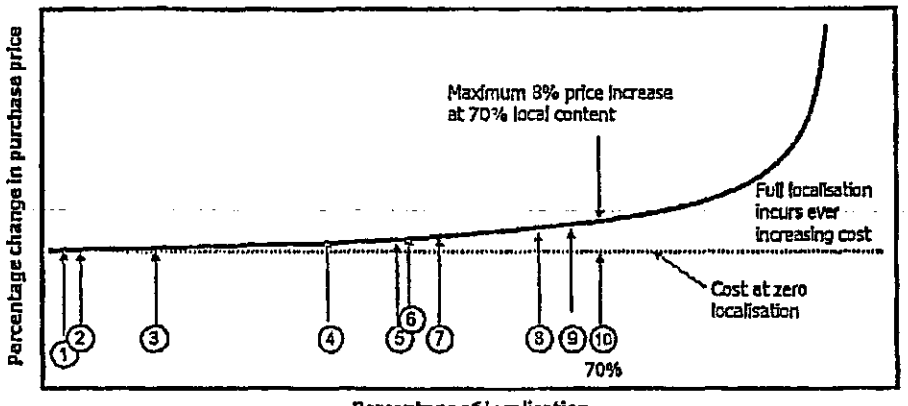
Percent

Categories	Total cost %	Current local %	Target local %	Percentage of Cost to local	Accum local
Drivers cab	2	0	2	0.27	2
Bogie	4	3	4	0.27	6
Locomotive assembly	22	20	22	0.32	28
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	1	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	1		
Grand total	100%	24%	70		

As is demonstrated in these tables, the difference between current nd 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 additiona capital investment but also the appropriate testing and quality control of both the production facility an d the parts produced.

EXHIBIT 44

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



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:

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 R68 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 170 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

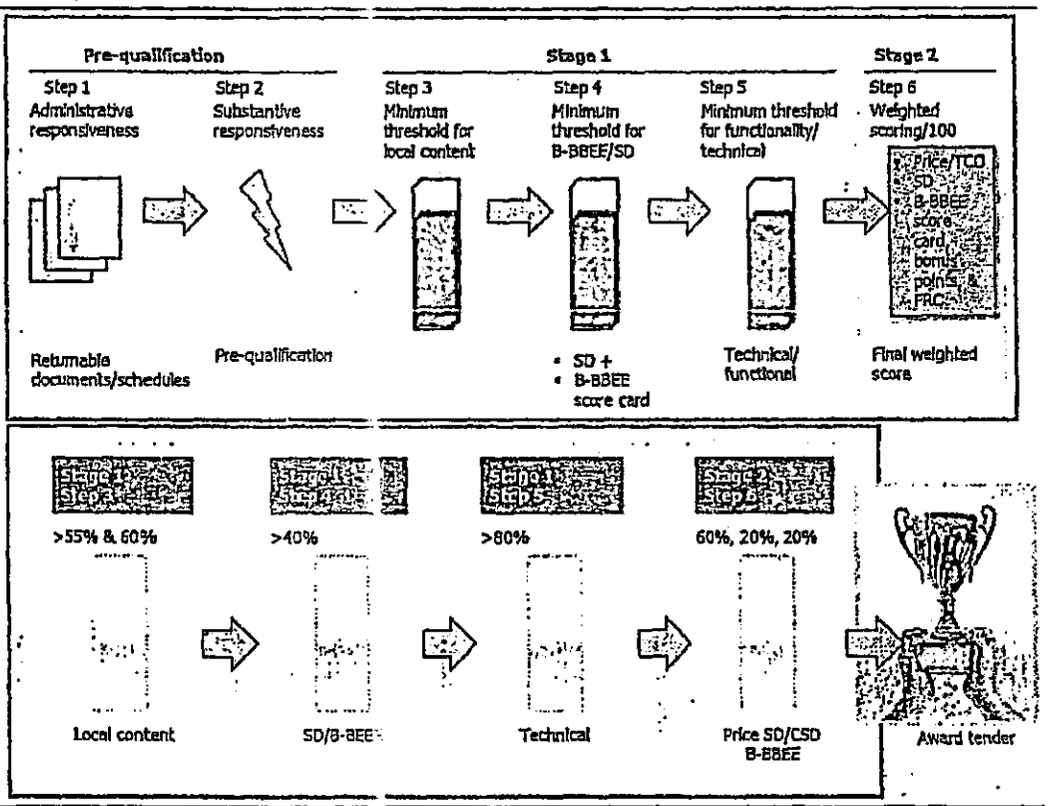
To ensure the bidding process is as fair and transparent as possible. As a long-term procurement event, open tender will identify suppliers with whom TFR can partner, to ensure value for money and compliance with Transnet's support for the NGP and government objectives. The programmatic nature of this 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

- 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 45



- 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.

- 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 competiveness, 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
- Electo-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.

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.

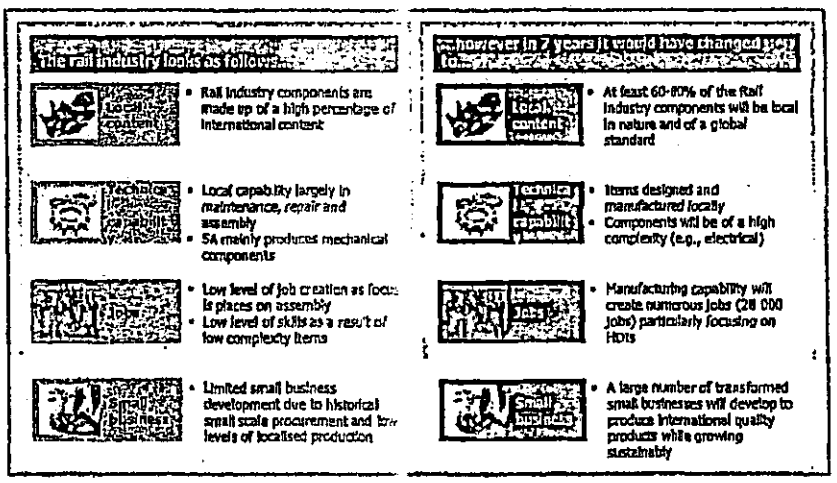
This spend will be leveraged to extract SD value in a manner that increases employment and also facilitates diversification beyond South Africa's current reliance on traditional commodities and non-tradable services. It will address the shortfall in artisan and technical skills by increasing the education 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. The 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 46

Fundamental shift of the Rail industry over the next 7 years



E. SUPPORTING DOCUMENTATION

1. 7-year commodity growth

	SELECTED GENERAL FREIGHT FLOWS	YEAR - TONS								ASSUMPTIONS/INITIATIVES
		2013/14 budget	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	7 year Ton Increase	
AGRICULTURE & BULK LIQUID	COMMODITIES NOT CLASSIFIED IN GROUPS	2.762	2.812	3.101	3.794	4.010	4.147	4.335	1.573	This category includes OTHER AGRICULTURE PRODUCE for instance BEANS, FMCG (SUGAR etc) as well as GASSES. Demand projections indicate increased volumes by rail in support of the NMPP. Also, there has been increased overborder demand from Botswana and Mozambique.
AGRICULTURE & BULK LIQUID	GRAIN, MAIZE, WHEAT & FOODSTUFFS	4.184	4.477	4.95	5.844	6.258	6.304	6.635	2.456	Domestic harvests average between 10mtpa - 14mtpa, weather permitting. Demand projection represents TFR's projected increase of local market demand as traffic is shifted from road to rail. Transnet's rail and port capacity support agri-logistics and rural infrastructure including a TFR section dedicated to branch line development.
AGRICULTURE & BULK LIQUID	TIMBER	2.49	2.576	2.834	3.361	3.485	3.846	5.118	2.628	Sappi Ngodwana – Production expansion will increase demand in 2013 by 113,000 tons from Piet Retief and Lothair areas. The plant will be completed in 2013. The expansion of the Sappi SAICCOR Wood yard will is expected to increase timber intake by 75,000 pa by 2013. Mondi is building new private siding at Iswepe.
	AGRICULTURE & BULK LIQUID	13.659	14.345	15.610	13.610	16.561	14.259	21.926	8.690	
COAL	COAL (DOMESTIC - OTHERS)	1.891	1.656	2.025	2.169	3.047	3.047	3.316	1.507	Coal deliveries to the Mondi and SAPPI papermills, will increase based on the growth in electricity usage over the next year.
COAL	COAL (ESKOM - ARNOT)	0	0	0	2	2	2	2	2	Coordinating and conclusion of the Arnot Powerstation
COAL	COAL (ESKOM - GROOTVLEI)	0	0	0	0	5	5	5	5	Grootvlei will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
COAL	COAL (ESKOM - MAJUBA)	6.794	9.351	12.054	12.036	13.816	14	14	8.206	Eskom road to rail migration plan. Eskom Majuba heavy haul line coming on stream in 2014 - increase tons to 14mt
COAL	COAL (ESKOM - TUTUKA)	0	0	0	5.5	6	6.5	7.5	7.5	Tutuka will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
COAL	COAL (EXPORT DURBAN WESTS)	1.434	1.771	2.737	2.84	2.84	2.96	7.705	1.272	Transnet's SA Coal transportation system development, Export coal line, Waterberg developments, Swaziland link, Coal backbone capacity, Eskom road to rail, Cross-border connections.
COAL	COAL (EXPORT RICHARDS BAY NAVITRATE)	0.630	1.046	1.103	1.154	1.454	1.354	1.990	1.36	Transnet: SA Coal transportation system development, Export coal line, Waterberg developments, Swaziland link, Coal backbone capacity, Eskom Road to Rail, Cross-border connections
COAL	COAL (EXPORT TCM(MAPUTO))	3.63	4.376	5.325	8.421	8.015	11.725	10.664	7.244	TCM expansion plan is to grow to 16mt in the next five years due to Limpopo projects (Vele and Makhado).
	COAL	14.056	19.014	24.937	36.341	44.646	47.097	46.616	31.869	
EXPORT IRON ORE LINE & MANGANESE	MANGANESE (EXPORT - ALGOA BAY PE)	5.1	5.1	8	9.257	13.128	14.357	16	10.9	SA's share of world output set to grow with junior miners and organic growth of traditional clients. New entrants are expected to commence with their respective productions in 2013/14. Global economy recovers from the current slump and demand from China does not subside. 16mtpa Manganese expansion in Ngqura rationalised. South Eastern node & corridor development – Transnet: Ngqura Transhipment Hub, integrated CDC development and Manganese Export Corridor.
	EXPORT IRON ORE LINE & MANGANESE	9.3	6.726	12.575	13.047	15.56	17.031	20.0	10.3	
INTERMODAL	COAL (ESKOM - CAMDEN COAL IN CONTAINERS)	1.647	2.2	2.966	4.272	4.376	5.272	3.798	2.151	Coal deliveries to the Powerstations will increase based on the growth in electricity usage over the next years. Camden will use container rail solutions for the next two years and tippler solutions thereafter. TFR Business case for these have been approved.
INTERMODAL	CONTAINERS (2M, 6M, 12M & NON-ISO STANDARD)	8.852	8.094	8.373	10.393	10.328	10.863	11.847	2.796	Linked to GDP growth. Refurbishment and establishment of terminals. Containerising mineral products at key loading sites. Development of Freight Hubs in areas such as Polokwane and Bloemfontein; New Castle Terminal. Gauteng Strategy: Kaserne Yard Rail Siding. Reconfigure Bayhead Yard to push back trains. Durban – Free State – Gauteng Logistics and Industrial Corridor – Transnet: Port of Durban expansion, new dig-out port, Natcor rail capacity expansion, Gauteng hubs and terminals development. Transnet Integrated Container Strategy in consultation with current and potential customers.
	INTERMODAL	14.030	14.265	16.331	19.535	16.295	16.766	16.741	6.187	
MINERAL MINING & CHROME	COMMODITIES NOT CLASSIFIED IN GROUPS	4.261	3.553	4.415	6.756	6.918	7.087	7.477	3.216	Included in this group is Gold Ore & Other Basic Minerals and Ore Mining. These commodities currently enjoy a healthy demand.
MINERAL MINING & CHROME	MAGNETITE (EXPORT MAPUTO)	2.405	3.567	4.28	4.116	4.839	4.839	6	3.595	Demand mainly from China – driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started.
MINERAL MINING & CHROME	MAGNETITE (EXPORT RICHARDSBAY)	4.17	4.293	4.711	5.3	5.3	5.3	5.3	4.13	Demand mainly from China – driven by increased steel production. Export growth indicates modest increase and domestic consumption is set to grow once local beneficiation projects are started.
MINERAL MINING & CHROME	ROCK PHOSPHATE (DOMESTIC RICHARDS BAY NAVITRATE RDC)	1.717	1.910	2.272	2.618	2.822	2.822	3	1.283	Building Drive # to support current 7 year demand
	MINERAL MINING & CHROME	16.531	20.317	24.454	26.303	26.111	20.557	21.063	14.891	
STEEL & CEMENT	CEMENT	4.585	5.295	5.661	6.111	6.161	6.271	6.343	1.758	Volumes to increase in line with SA's GDP growth (4% on average). TFR also targeting rail-friendly volumes in this sector. There is roughly 4mt of bagged cement currently on road. The road to rail strategy aim is to target 300,000 tons in the 1st year and gradually capture more over the 7 year period.
STEEL & CEMENT	COAL (DOMESTIC - OTHERS)	5.24	6.631	7.66	8.485	9.024	9.024	9.511	4.271	Driven by growth in other industries, e.g. steel, cement, timber etc
STEEL & CEMENT	COMMODITIES NOT CLASSIFIED IN GROUPS	1.774	1.848	1.637	2.326	2.497	2.794	2.879	1.105	These include dolomite, fluorspar etc used in the production processes of the Steel Manufacturers and is linked to increased output in the production processes.
STEEL & CEMENT	IRON ORE (DOMESTIC SISHEN)	1.842	2.673	2.620	3.731	3.835	3.831	3.84	2.750	Increase in domestic steel production supported by government infrastructure development plan. Domestic and regional consumption of steel fuelling demand for iron ore. A new export project by Aquila from Thabazimbi to Maputo.
STEEL & CEMENT	LIME	1.451	1.336	1.186	2.417	2.585	2.497	2.595	1.144	Lime is used in the production processes of the Steel Manufacturers and is linked to increased output in the production processes.
	STEEL & CEMENT	21.836	26.687	32.367	35.318	36.468	38.464	39.458	27.826	
Total	General Freight	91.212	104.705	127.272	131.461	168.150	170.414	188.252	95.043	

2. General Freight fleet runout

Locos GFB FLEET Runouts and upgrades out same year. Wreck repairs from previous year, Cascades a year year

Type	Class	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32
6E	6E		12																				
	6E1		113	103	75	25																	
7E	7E		57	57	61	56	29																
	7E1				48	48	48	46	48	45	24												
	7E2		43	43	45	45	23																
	7E3		65	65	65	65	65	65	65	65	65	63	65	63	65	65	54	43	32	21	10		
	7E4							17	17	17	7												
4E	6E		68	37	37	37	37	25	13														
9E	9E		[illegible]																				
10E	10E		45	46	46	45	45	46	45	45	45	45	45	45	45	45	45	45	45	45	45	46	45
	10E1		30	30	37	39	41	58	65	63	66	59	65	65	61	59	64	56	58	58	58	56	60
	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	11	23	13	18	18	19	19	19	19	19	19	19	19	8		
12E	12E																						
14E	14E		1	1	1	1	1	1	1	1													
	14E1		7	7	7	7	7	7	4	1													
15E	15E																						
18E	18E		508	525	587	617	637	727	727	[illegible]	682	632	502	532	482	432	382	332	282	232	182	132	82
19E	19E																						
20E	20E																						
20E	NewE																						
31	31 GE																						
32	32 GE																						
33	33 GE		17		8	8	5	5	8	[illegible]	8	5	8	5	6	9	8	5	6	6	6	6	5
34	34 GE		167	173	199	189	204	190	176	153	125	76	29										
	34 GM		46	45	119	110	124	111	95	77	79	79	79	60	44	19							
35	35 GE		43	43	39	39	39	38	32	[illegible]	26	10	10	2									
	35 GM		110	110	107	107	107	107	107	[illegible]	60	57	33	10									
36	36 GE		94	94	86	86	86	86	85	34	26	72	98	44	30	16							
	36 GM		83	83	81	81	81	81	81	[illegible]	81	81	81	81	81	67	53	39	25	11			
37	37 GM		93	60	73	70	58	48	34	22	10												
38	XM		36	36	38	38	38	38	38	31	34	36	19										
39	39 GM		88	85	53	53	53	53	53	53	53	53	53	53	48	48	48	48	48	48	48	48	48
43	43 GE		27	27	53	53	53	53	48	43	48	48	48	48	48	48	48	48	48	48	48	48	48
NewD	NewD																						
91	91 GE																						
Grand Total			1730	1748	1888	1898	1864	1873	1776	[illegible]	1650	1365	1201	1051	948	842	732	667	592	507	425	356	306
Diesel Fleet (before wrecks)			708	758	850	858	848	806	753	[illegible]	628	524	410	310	254	201	152	135	124	110	99	99	99
Electric Fleet (Before Wrecks)			1024	990	1038	1040	1016	1025	1023	[illegible]	022	841	791	741	681	641	580	510	468	397	326	257	207

3. Locomotive run-out mitigation

Total Maintenance cost for Wagons and Locomotives

By inspection the cost per annum increase of locomotive maintenance is significantly greater than that of wagon maintenance. Locomotive maintenance increase from R2 377m to R3 335 over the five year period 2007/08 – 2011/12; an increase of 40 percent. By contrast wagon maintenance, which does not have the same level of technology, increased from R2 044 to R2 234 over the same period: an increase of 9.3 percent. All maintenance is performed by Transnet Engineering.[8]

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

This figure shows the average cost of maintenance per class of locomotive over the past five years against its performance measured in Net Ton Kilometres.

[8] The increasing proportion of capex 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.

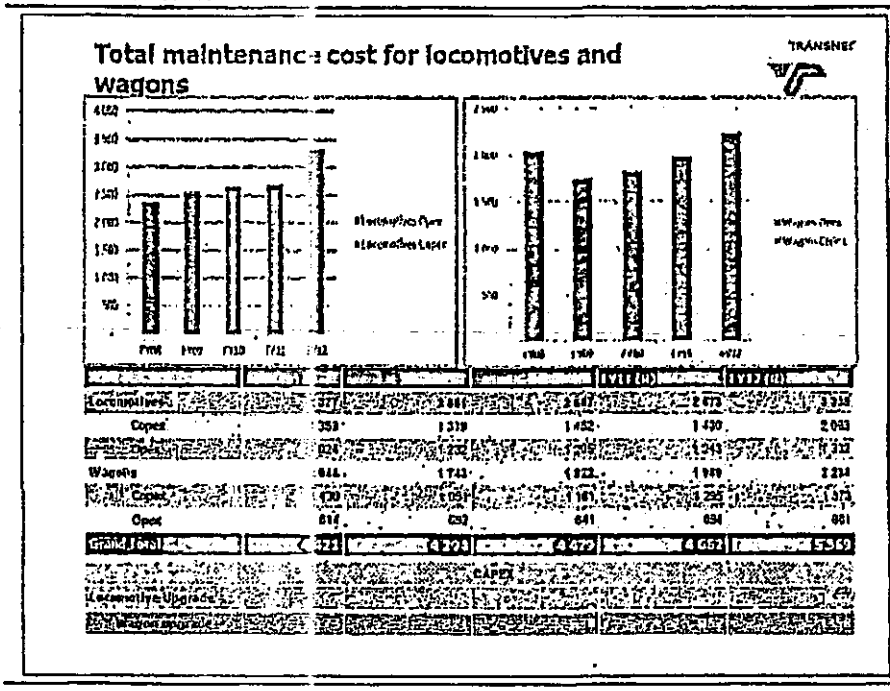
The new locomotives such as the 15E, 19E and 43D cannot be directly compared to the older locomotives as the new locomotives have not seen five full years of service but even making allowance for the shorter service, the savings in maintenance costs is evident.

The three locomotives (excluding the new locomotives) with the best ratio of NTK/Cost of Maintenance are the heavy haul locomotives 3E, 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.

1. EXHIBIT 47



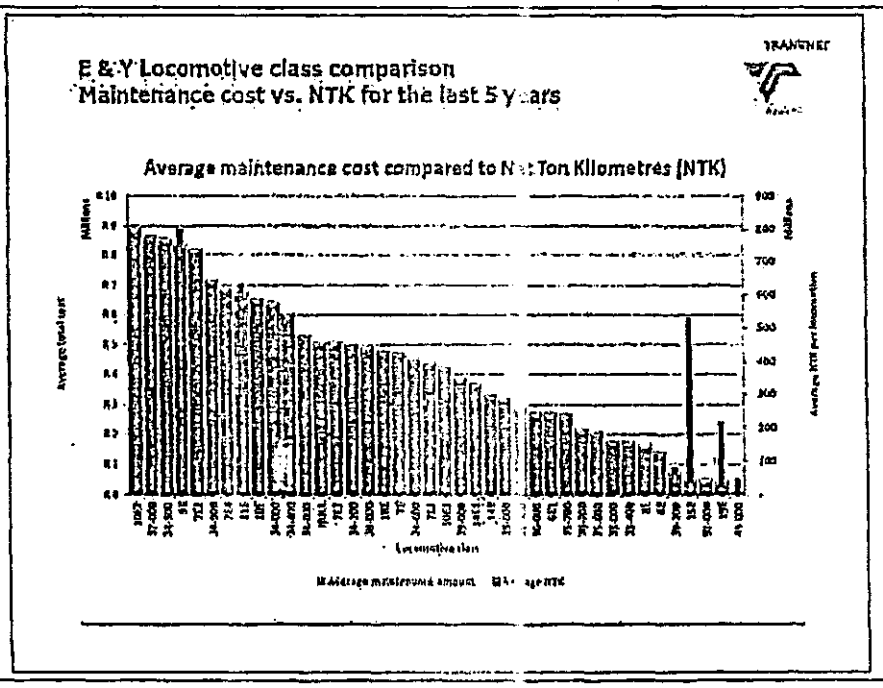
TFR has exhausted the life extension possibilities of its current "workhorse" fleet which are the primary contributors to GTK / NTK. Extending the life of "shunters" and "haulers" does not contribute to increasing GTK / NTK as the locomotives are not used and cannot be used for the heavy loads of main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

- 650 6E1 series upgrade to new class 18E providing a 12-15 year life extension. 120 upgrades are still be completed by March 2016. By 2018 the first of the upgrades will start to runout.
- 150 class 34 GE locomotives programmed for fitting with new Britestar Contol 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.

EXHIBIT 48



4. Locomotive 7-year locomotive requirement

		7 YEAR LOCOMOTIVE REQUIREMENT											
GFB	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
6E/6E1	6E	183	172	334	43								
14E	14E	506	521	662	744	760	715	715	665	615	565	515	465
7E	7E	64	66	42	4	42							
7E1	7E1	0	-	21	5	21	46	46	46	45	46	46	44
7E2	7E	32	34	34	3	34	34						
7E3	7E	13	65	65	6	65	65	65	65	65	65	65	65
8E	8E	58	54	37	3	24	12	12					
9E	9E		9	4									
10E1	10E	23	26	36	3	36	53	62	65	45	45	45	45
10E2	10E	59	54	62	6	62	62	62	62	62	62	62	62
14E1	14E	8	8	8									
25	OE	17											
34	GE	115	135	135	12	108	142	142	142	120	120	120	120
34	GM	82	90	94	9	94	94	94	94	94	94	94	94
35	GE	65	65	74		74	74	74	74	74	74	74	74
36	GM	79	65	93	8	96	96	96	96	96	96	96	96
36	OE	87	90	90	9	98	98	98	98	98	98	98	98
36	GM	81	84	84	9	92	92	92	92	92	92	92	92
37	GM	48	50	50	5	25	25						
38	XH	34	38	38	3	38	38	38	38	38	38	38	38
39	GM	25	50	50	5	50	50	50	50	50	50	50	50
43	OE	24	62	113	1	113	126	113	113	113	113	113	113
443 NEW		0	-	-	5	179	279	362	393	465	515	565	565
22E		0	-	-	2	207	332	462	599	671	721	771	821
Total		1645	1661	1973	21	2381	2642	2682	2661	2783	2803	2832	2833

5. Deployment plan

EXHIBIT 49

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TRANSNET

GLOSSARY

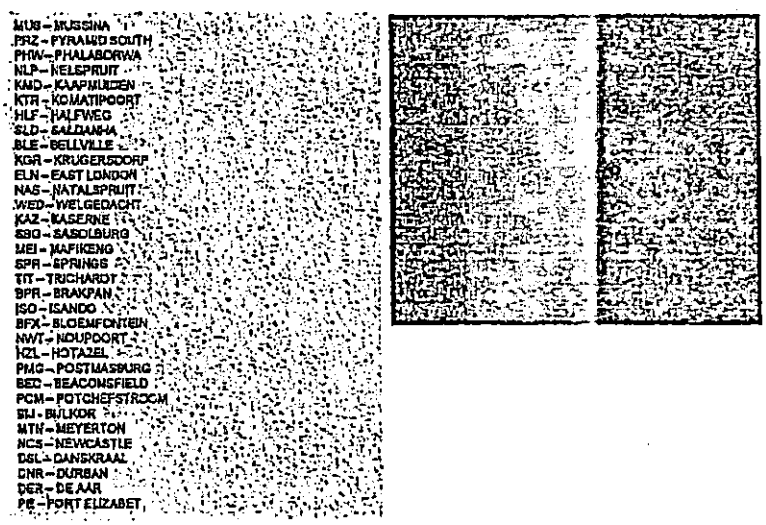

EXHIBIT 51

TRANSNET

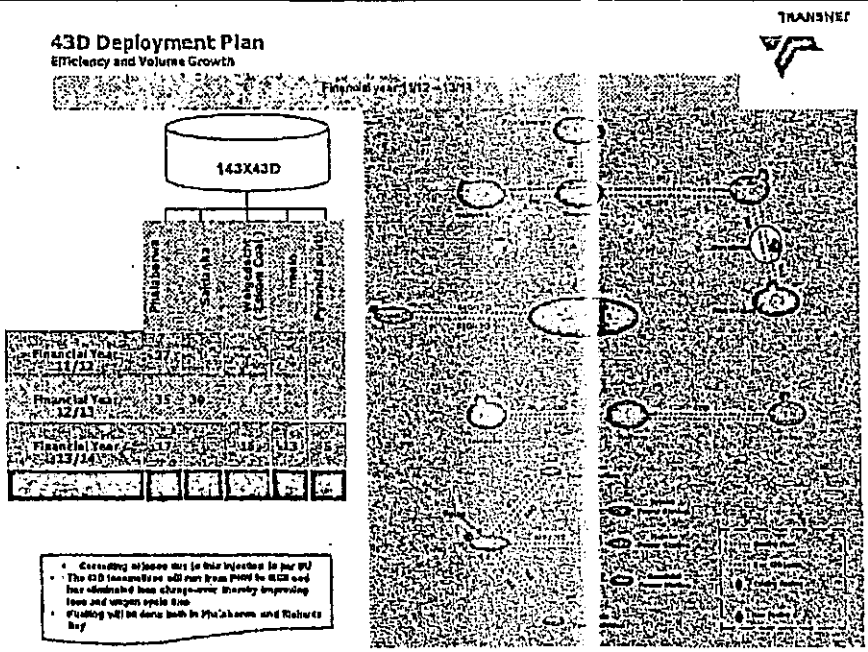

EXHIBIT 52

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

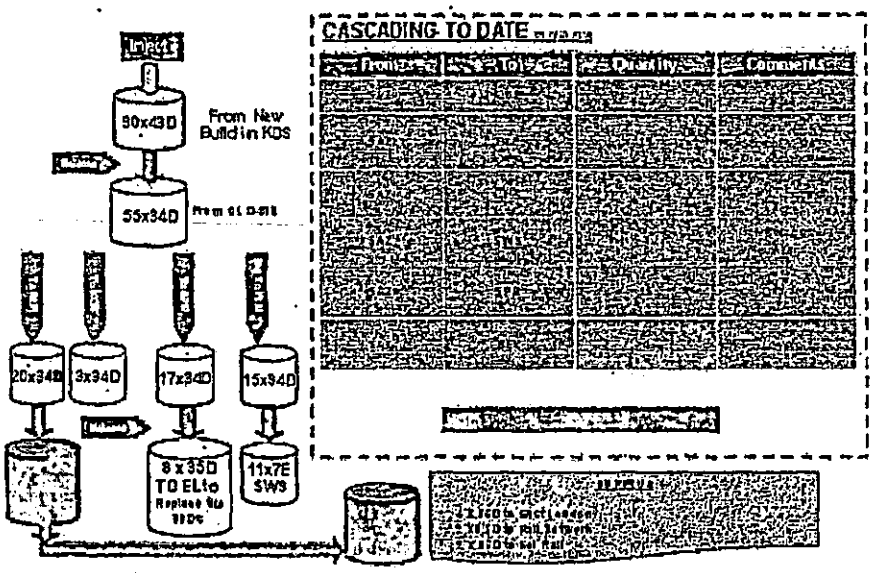

EXHIBIT 53

Schematic view of the deployment of new locomotives into the Coal Business Unit

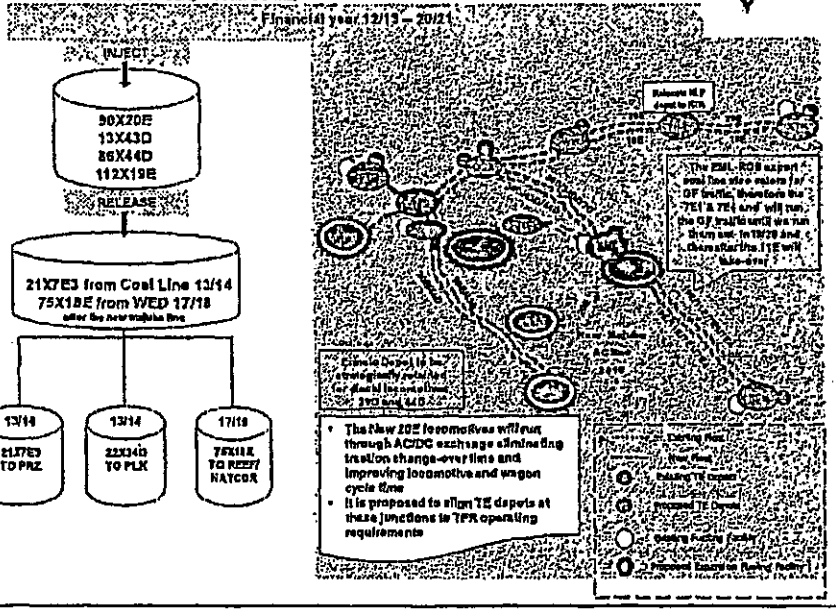

EXHIBIT 54

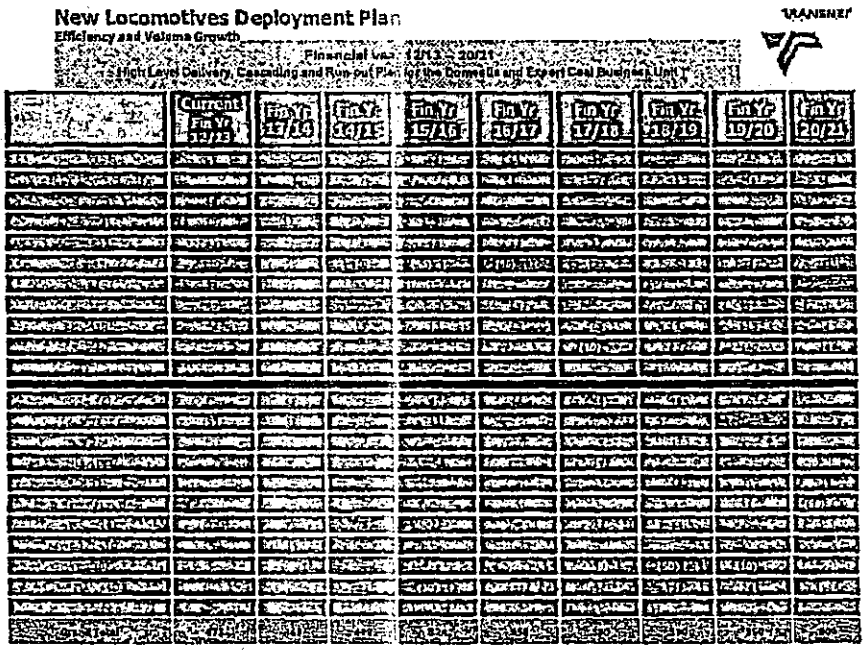

EXHIBIT 55

TRANSNET

Deployment Strategy & Benefits : Coal

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 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 62 to 48 hours
  - This increases the volumes capacity of the current wagon fleet from 81 to 94.7 mtons.
  - By operating design all 19E/equivalent will be maintained in RCB.
  - This requires that all investment for maintenance at Ermelo 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 19E1s.
- The whole diesel fleet to be replace 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.
- 67XOld Diesels (34D/37D) swapped with 43XNew Diesels (43D/44D), however the figure will be reviewed.

EXHIBIT 56

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 57

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 (38200's, 43D's and 44D'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 16E1'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

EXHIBIT 58

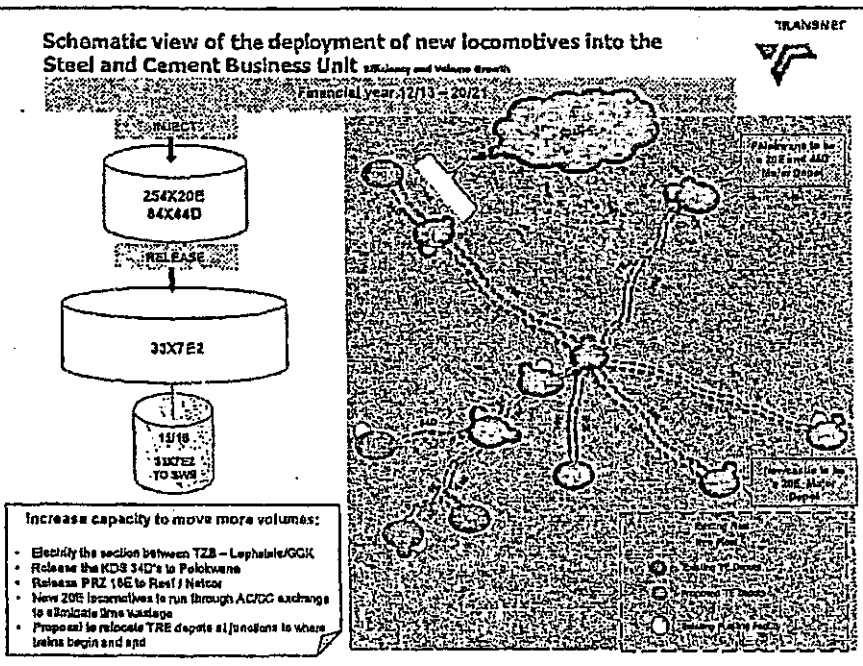

EXHIBIT 59

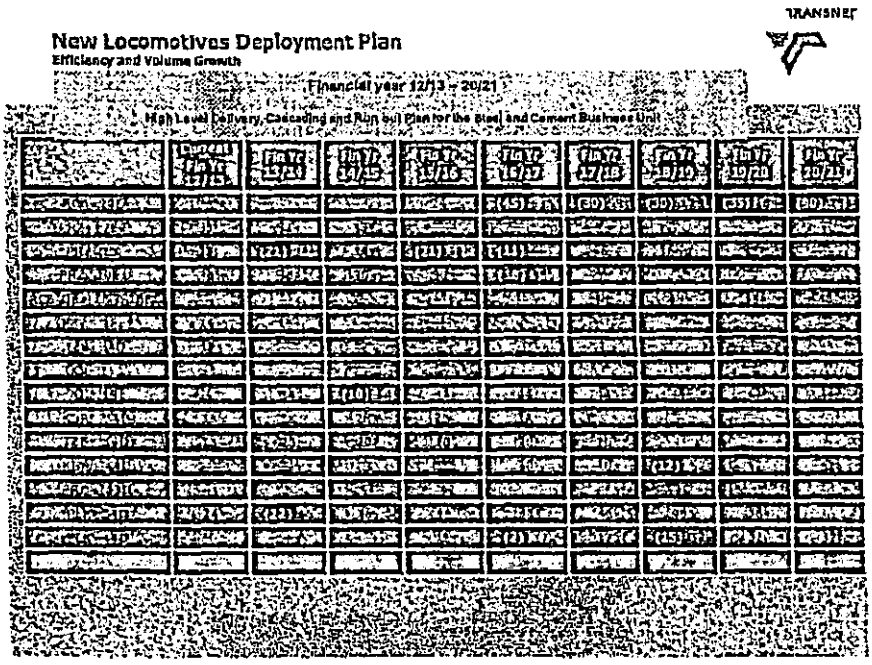

EXHIBIT 60

TRANSNET

Deployment Strategy & Benefits : SAC

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 Vereeniging, 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 Thabazimbi and Grootegeluk become vital for dual loco system, hence the need to fast tracked 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

- Koedoespoort diesel depot required to be down scaled as the number of diesels will be reduced.
- Thabazimbi 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, Elikor 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 Sentrarand 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 61

Deployment Strategy & Benefits : SAC

TRANSNET

Financial Impact Analysis

- Pyramid yard strength to be addressed
- Cycle time from Lephalale to Richardsbay 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, Krugersdorp 34D and the Polokwane 34D's; SAVINGS

EXHIBIT 62

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

TRANSNET

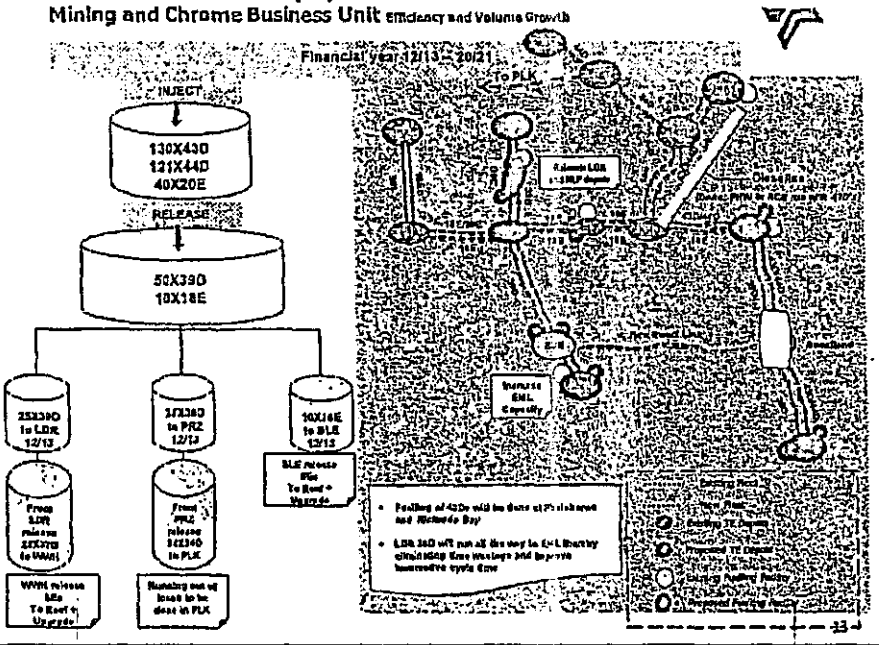

EXHIBIT 63

TRANSNET

New Locomotives Deployment Plan

Efficiency and Volume Growth

Financial year 12/13 – 20/21

High Level Delivery, Cascading and Roll out Plan for the Mineral Mining and Chrome Business Unit

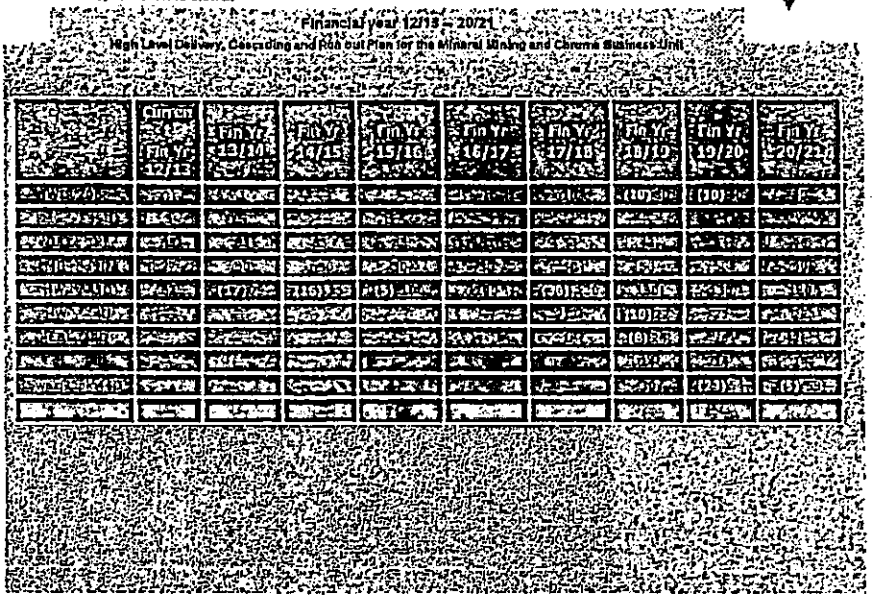

EXHIBIT 64

TRANSNET

Deployment Strategy & Benefits : MMC

General Freight

- Note the original deployment was 89 locomotives for required MDS tons, based on th efficiencies achieved this was dropped to 78 locomotives for the same tons. The GTKs was achieved in advance of what the business case stated.
- Increase the 82 x 43D's at Phalaborwa to 93 to capture the growth in Magnetite and coal from Musina by 2013/2014.
- The locomotive cycle time has improved from 72 hours to 55 hours with the injection of the 43D's
- Wagon cycle time has improved from 7 days to 5 days on the corridor.
- Deployed 38D's at Lydenburg
- Eliminated locomotive change over at Belfast. Running the 38D's all the way to Ermelo.
- A 100 wagon train was tested successfully between Lydenburg and Ermelo.
- Steelpoort to be 104 wagon RDP train
- Investigate the future growth plans for the Roossenekal area and keep Witbank depot in the meantime

Impact on Crew and Maintenance depot

- 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 38D's only
  - Future maintenance to be done at Ermelo
  - Relocate Lydenburg as a Loco and Crew depot to Steelpoort

EXHIBIT 65

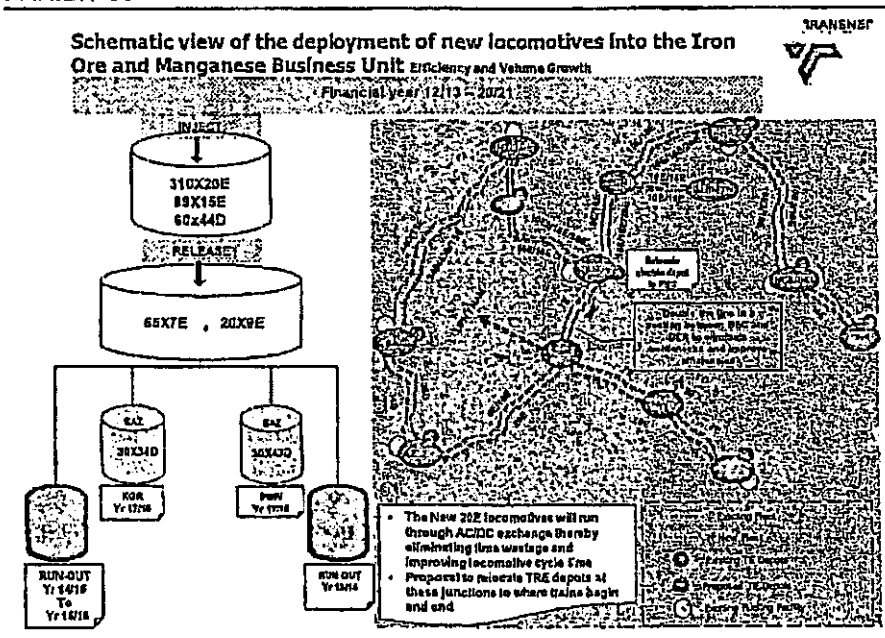

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EXHIBIT 66

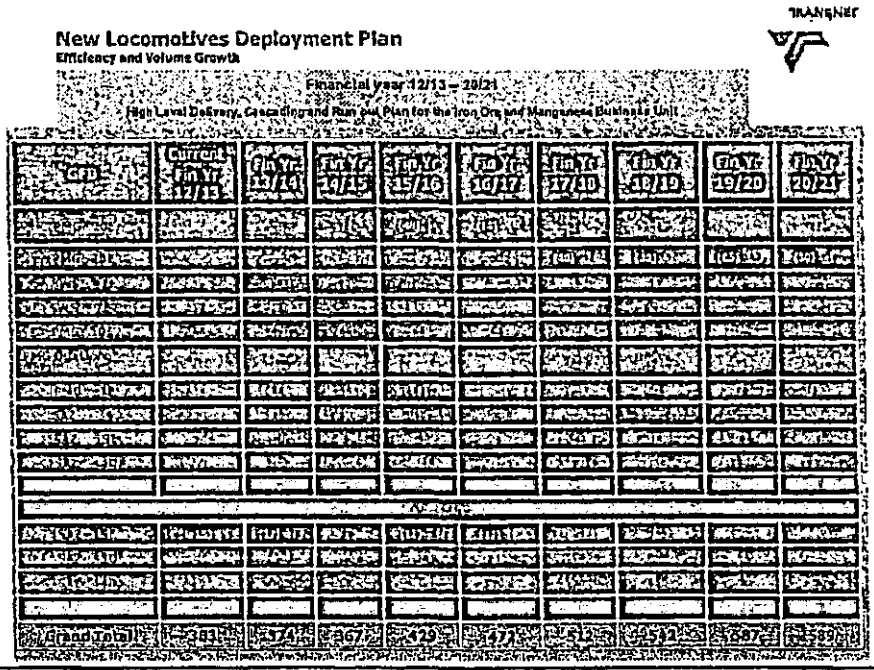

EXHIBIT 67

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 36 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 2016/2018, 31XPRZ 7E2 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 68

Deployment Strategy & Benefits : IOM

TRANSNET

Financial Impact Analysis

- Car and container trains to Koalfontein 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 16E 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 7E by 2015/2016:

EXHIBIT 69

Deployment Strategy & Benefits : IOM

TRANSNET

Financial Impact Analysis

- Car and container trains to Kaalfontein 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 16E 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 7E by 2015/2016:

EXHIBIT 70

New Locomotives Deployment Plan

TRANSNET

Efficiency and Volume Growth

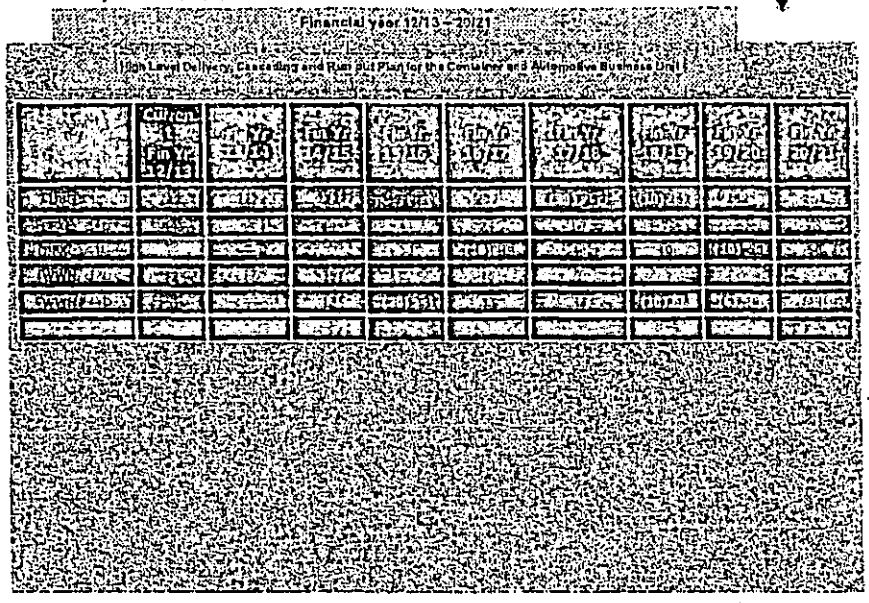

EXHIBIT 71

Deployment Strategy & Benefits : CAB

TRANSNET

General Freight

➢ **Kazerne/City Deep**

- Postmasburg/Swartkops 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.
- ➢ Bellville 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 44D's versus 37D's and the 37D failures rates.

➢ **Financial Impact Analysis**

- Fuel savings when replacing 34/37 with 44Ds
- Parking of Wentworth 37D by 2017/2018 and Bloemfontein 34D by 2017/20[illegible] SAVING

EXHIBIT 72

Schematic view of the deployment of new locomotives into the Agriculture, Timber, Bulk Liquids and Africa Trade Business Unit efficiency and va[illegible] Growth

TRANSNET

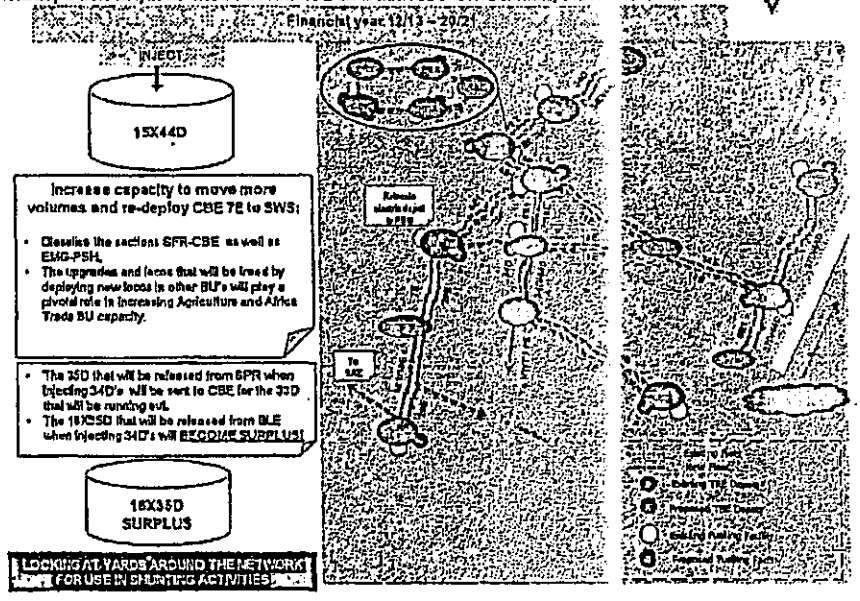

EXHIBIT 73

TRANSNET

New Locomotives Deployment Plan

Efficiency and Volume Growth

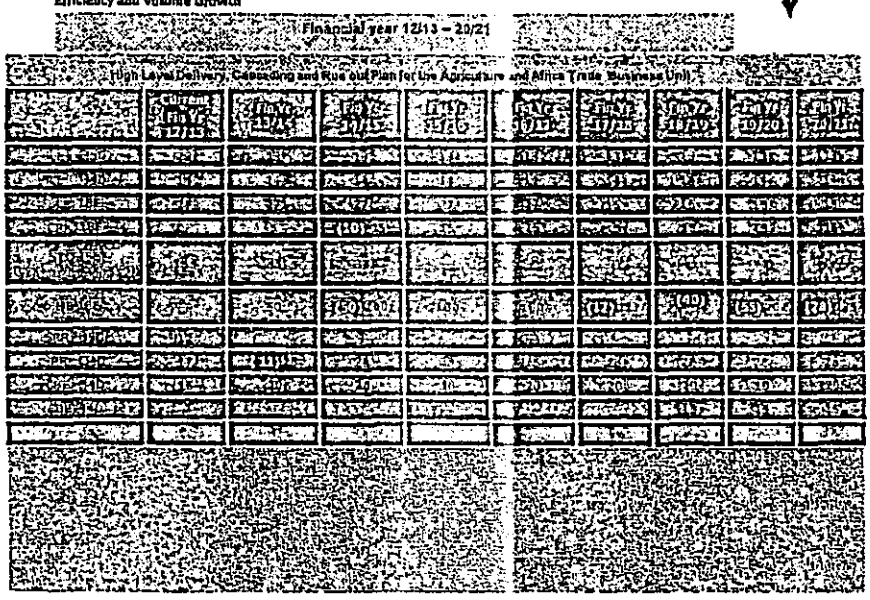

EXHIBIT 74

TRANSNET

Deployment Strategy & Benefits : ABL

General Freight

- The Sentrarand 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 sites.
- The Polokwane 34D 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 were feasible.

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

	Present Value to Start of Fin Year 2014	2014	2015	2016	2017	2018	2019	2025	2030	2035	2040	2045	2046	2047	2048	2049
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total volumes (Net tons)		51	104	127	151	161	170	170	170	170	170	170	170	170	170	170
Discounted volumes (Nt tons)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tariffs Average (R/Tonkm)		0.42	0.45	0.44	0.50	0.54	0.58	0.84	1.12	1.50	2.01	2.68	2.85	3.02	3.20	3.39
Average distance (Kms)		553	551	533	533	539	542	542	542	542	542	542	542	542	542	542
Revenue	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Diesel TCO	22080	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Diesel TCO																
Initial capital outlay	8314	1583	2709	1876	3058	7190	0	0	0	0	0	0	0	0	0	0
Disposal value	0															
Fuel	8657	50	455	824	1233	1713	2004	2814	3735	4956	6577	5600	3940	2067	0	0
Maintenance	1849	1	14	63	124	220	327	986	863	1584	1807	1187	896	470	0	0
Personnel costs	3029	0	130	256	398	559	662	1018	1462	1009	2769	2377	1675	840	0	0
Insurance	49	0	2	5	7	10	11	16	21	28	38	33	23	12	0	0
Emissions	182	0	9	17	26	34	42	60	80	107	144	123	87	48	0	0
D6 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	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Electric TCO																
Initial capital outlay	12252	318	1974	4931	5352	5689	5670	0	0	0	0	0	0	0	0	0
Disposal value	0															
Fuel	3801	0	21	133	337	577	840	1465	1958	2611	3486	4318	3683	2768	1731	470
Maintenance	1724	0	0	1	17	70	152	635	1346	1402	2599	2108	1610	1224	839	140
Personnel costs	3401	0	17	110	275	468	682	1312	1683	1665	3567	4428	3779	2841	1771	483
Insurance	53	0	0	2	5	8	12	21	27	37	49	61	52	39	24	7
Emissions	531	0	3	19	48	80	117	204	273	306	489	608	519	390	244	66
D6 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																
Total Wagon costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Purchase cost	10017	3022	3417	3462	3228	2559	649	0	0	0	0	0	0	0	0	0
Capex	1583	3	23	70	151	242	339	591	817	1135	1577	1877	1561	1126	827	172
Opex	863	3	17	44	96	142	190	318	421	563	754	864	714	511	282	77
Total infrastructure costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Expansion	5513	1026	2787	3379	3023	3081	4967	0	0	0	0	0	0	0	0	0
Capex and replacement capex	8978	60	384	795	1248	1627	1837	3030	4065	5440	7281	8345	6890	4933	2727	741
Overhead costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net cash flow before tax	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28% Effective tax costs (negative = credit)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cashflow after tax	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

8. Risk register

No	Risk Name	Risk Description	Cause	Mitigation
1	Change Management Risk	Ineffective change management in implementing the strategies as encompassed in the	> Lack of buy in from labour > Low employee morale > Employee resistance > Relocation of people	> Lack of understanding as to the business need for the changes > Ineffective communication resulting from the communication	None. Pending deployment plan approval
2	Volumes Risk	Volumes Risk associated with the late delivery (1064	> Loss of Revenue (R70.8bn) > Loss of Tonnages	> Current planned timelines may be at risk for local production1 and suggest annual locomotive shortages peaking at 150 electrics and 70 diesels in 2015	> Close monitoring of the delivery schedule > 1064 steerco
3	Planning Risk	Incorrect fleet life cycle planning	> tonnages not materialising as a result of the unavailability and unreliability of the fleet	> Severely underestimating the contractual complexities	> Standard Agreement & standardised technical specifications
			> projects falling behind schedule,	> Adding additional requirements and complexities to the contract	> 1064 loco steer committee
			> underutilised assets	> Lengthy approval processes causing delays and mismatch between scheduled deployment and operational requirements	
			> inability to deliver the fleet as per the plan	> Non alignment between rolling stock planning, network planning and technology planning	> Improved approval process of prototypes prior to planned builds ahead of demand (Wagons & loco's upgrade)
				> There is an inherent risk with the increase in number of OEMs. The number of OEMs used for locomotives increases the acquisition time for design and testing, and increases the contractual complexities	> Signed off user requirement specifications (Wagons)
				> Unrealistic timelines creating undue pressure on fast tracking the time taken for design and testing	> Alignment of fleet deployment plan according to traffic file
				> Lack of co-ordination and integration between the various Capital projects	
				> Protracted negotiations	> Procurement controlled by current procurement strategy.
				> 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	> Aggressive delivery forced by conservative payment regimes
					> None
					> None
					> Contract management process
					> Project Management, contractual terms for terminating and contract penalty clauses
					> Resuscitate of the fleet plan > Deployment plan

No	Key Element	Description	Consequence	Cause	Mitigation
4	Market Risk	Inherent risk that the commercial sectors that the wagons and locomotives are built for do not achieve the anticipated market growth	> tonnages not materialising as a result of the unavailability and unreliability of the fleet	> lower than anticipated customer demand	> Annual budget review of the demand (Demand file)
			> projects falling behind schedule	> The anticipated customer demand does not materialise	> Logistic integration function (monitors asset performance & allocate resources))
			> underutilised assets	> The customer demand exceeds planned demand	> Annual budget review of the demand (Demand file)
					> Financial KPI focusing on asset utilisation (Return on total assets)
					> Annual/ Quarterly review of the build programme to align TE factories (wagon fleet)
				> not obtaining the right wagon mix for the right volumes of commodities at the right time	
5	Skills Risk	Lack of required skills to build, maintain, project manage and utilise the new fleet	> Delay in the execution of the fleet plan	> Insufficient maintenance skills (artisans, technicians)	> Maintenance staffing plan
			> Delay in project schedule/ deployment	> Insufficient new generation technology maintenance skills	
			> Underutilised assets	> Train drivers not adequately equipped to utilise the new fleet	> Succession plan & training with SOR
			> Poor assets handing assets	> Inadequate transfer of knowledge of skills from the OEM to Transnet	
				> Lack of project management skills	> Train Drivers are trained in accordance with training plan
					> Training is built in the contract with the suppliers to train the maintainer (TRE) on the new technology
					> Project management staffing plan
6	Exogenous Risks	Impact of Eskom generation capacity shortage on the fleet plan	> Projects delay commissioning	> Eskoms inability to secure long term sourcing contracts	> Efficiency improvement initiatives
		Impact of strike action at major supplier plants	> Power shortages	> Industrial action from major suppliers	> Energy Saving Initiatives
			> Cost overrun	> Earthquakes	> Establish Energy Efficiency Forum
			> Scope creep	> Floods	> High level engagement with Eskom as to plans to address shortage of capacity (including contractual agreements with Eskom)
				> War	> Complete list of TFR projects submitted to Eskom
				> Sanctions or trade restrictions the world countries	> Contracts clauses
				> Component prices going up	> Contract - under the force majeure clauses
					> The force majeure is valid for six months of which afterwards Transnet can terminate contract or apply breach of contract terms.
					>SLA with suppliers of TRE
					>TFR and TRE annual price review and escalation to TFR

No	Key Element	[illegible]	Impact [illegible]	[illegible] Cause [illegible]	[illegible] Control [illegible]
7	Governance Risk	Lengthy Approval processes Treasury note on supplier development has introduced uncertainty	> Delay in the execution of the fle	> long lead time in obtaining approval as per PFMA requirements by DPE	> Project approval governance process
8	Operational Readiness	Inability to integrate new fleet into operations (readiness of the entire supply chain)	> loss of revenue > Poor return on investment > Delay in deployment > Underutilised capacity	> Lack of capacity by School Of Rail, School Of Engineering & curriculum readiness (Skills) > Lack of maintenance capacity (Facilities and Personnel) at TE > Lack of capacity & facility alignment with TPT & Customers > Lack of fully integrated 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 to operations and maintenance > Impact of the deployment plan on the organisation i.e. fleet & ITP once the deployment plan has approved.	> OR Implementation guideline and Training approach & guideline > Maintenance Philosophy and Deployment Plan > Customer relations management > Technology plan > Rail Network Maintenance Plan > IT Plan and contracts > Draft Handover policy > Change Impact Assessment
9	Maintenance Risk	Inability to align maintenance and build plan to the fleet plan	> Not meeting the delivery schedule > Exceeding planned unit price > Work not performed according to works instructions	> Supplier to deliver on the TFR mandate (normal scheduled maintenance; new build programme, major fleet overhaul	> 7 year maintenance plan (TRE) > Delivery of material is planned ahead of demand > Annual/ Quarterly review of build programme that align TRE factories > Production lines at TRE doubled > Additional material suppliers sourced > Some factories operating 24 hour shifts to mitigate risk of delay to schedule > Fix unit prices for major components
10	Technology Implementation Risk	No clear identification of the technology functional needs and user requirements specifications	> Inadequate functionality of the f	> Inadequate process to define the URS > Lack of fleet ownership to identify the technology functional needs (no clear URS)	> Project management process > Signed off URS
11	Technology risk	Inappropriate technology	> Wrong technology deployed Non optimal functional of the fleet	Lack of knowledge and expertise to provide correct specified technologies	Technology management section with experts

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9. Fraud risk management plan

Fraud Awareness Education/Training sessions to internal stakeholders involved in the 1064 Locomotive Acquisition process, which includes Fraud, Ethics & Information Security		Forensic Champion / TIA Forensic CD Leader				- Employees involved in the Locomotive acquisition process become aware of fraud and are able to identify incidents of possible fraud and report their allegations effectively	- Training to be aligned to 1064 Locomotive Acquisition plan / strategy.
Monitor the roll-out of Supplier Integrity Pact for suppliers bidding for the supply of the Locomotives.		Forensic Champion / TIA Forensic CD Leader				-Ensure that suppliers bidding for the supply of locomotives are being made aware of the Supplier Integrity Pact and its content - Ensure that suppliers bidding for the supply of locomotives sign the Supplier Integrity Pact as part of their contractual obligations with Transnet	- Feedback provided at monthly Locomotives Acquisition Steering Committee
Perform a Fraud Risk Assessment on the 1064 Locomotive Acquisition process		Forensic Champion / TIA Forensic CD Leader				- Identify fraud 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	- Workshops to be scheduled with stakeholders timeously and - Fraud Risk Document distributed to all key Stakeholders involved in the acquisition process.
- Establishment of a Locomotive Acquisition Steering Committee (LSC) - Finalise the Mandate and terms of reference for the LSC.		Forensic Champion				- Ensure that there is oversight and that key stakeholders are held accountable in terms of their obligations in the locomotive acquisition process.	- Finalise terms of reference and mandate for the Locomotive Acquisition Steering committee.
Gate Value Gateway Review Process		Forensic Champion				-Provide assurance that due process complied with in the acquisition of the Locomotives.	- Timely delivery of assurance reports to Locomotives Acquisition Steering committee.
Conduct a Conflict of Interest compliance check for employees involved in the 1064 Locomotive Acquisition process		Forensic Champion / TIA Forensic CD Leader				- Determine compliance with the Declaration of Interest and Related Party Disclosures Policy - Identify possible conflicts of interest	- Timeous delivery of the final report to Steering Committee
Conduct a Gifts compliance check for stakeholders involved in the 1064 Locomotive Acquisition process		Forensic Champion / TIA Forensic CD Leader				- Determine compliance with the Gifts Policy - Identify possible incidence of non compliance	- Timeous delivery of the final report to Steering Committee.
Conduct a Delegation of Authority compliance check for stakeholders involved in the 1064 Locomotive Acquisition process		Forensic Champion / TIA Forensic CD Leader				- Determine compliance with the Delegation of Authority framework - Identify possible incidents of non compliance	- Timeous delivery of the final report to Steering Committee.
Perform Vendor Due Diligence on all entities that respond to 1064 locomotives, including site visits, and the business interests against Transnet restricted vendors and their directors		Forensic Champion / TIA Forensic CD Leader				- Determine compliance with all Transnet related Policies	- Timeous delivery of the final report to Steering Committee.
Conduct Networked and Narrative Analysis on all internal stakeholders involved in the 1064 Locomotive Acquisition process.		Forensic Champion / TIA Forensic CD Leader				- Internally perpetrated Fraud / corruption being committed by stakeholders in the 1064 Locomotive Acquisition process	- Timely delivery of reports to Management and the Locomotives Acquisition Steering Committee.
Review and enhance OEM site visit guidelines		Forensic Champion / TIA Forensic CD Leader				- To ensure that dealings with OEMs are kept at arms length during site visits by Transnet employees or agents	- Timeous delivery of the enhanced OEM site visit guidelines to the Steering Committee for adoption.

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
Natcor2							
Required	216	231	247	294	327	348	367
Available	146	146	146	146	146	146	146
Delta	70	85	101	148	181	200	221
Coalline							
Required	783	838	896	1067	1184	1255	1330
Available	417	417	417	417	417	417	417
Delta	366	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
Capecor1&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
Hockeystick							
Required	278	297	318	379	420	446	472
Available	191	191	191	191	191	191	191
Delta	87	106	127	188	229	255	281
Westcor							
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
Sentracor							
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**
Delta	**529**	**784**	**1055**	**1846**	**2388**	**2717**	**3065**

11. Infrastructure plans

EXHIBIT 75

Track / Perway – Axle loading (Current status)

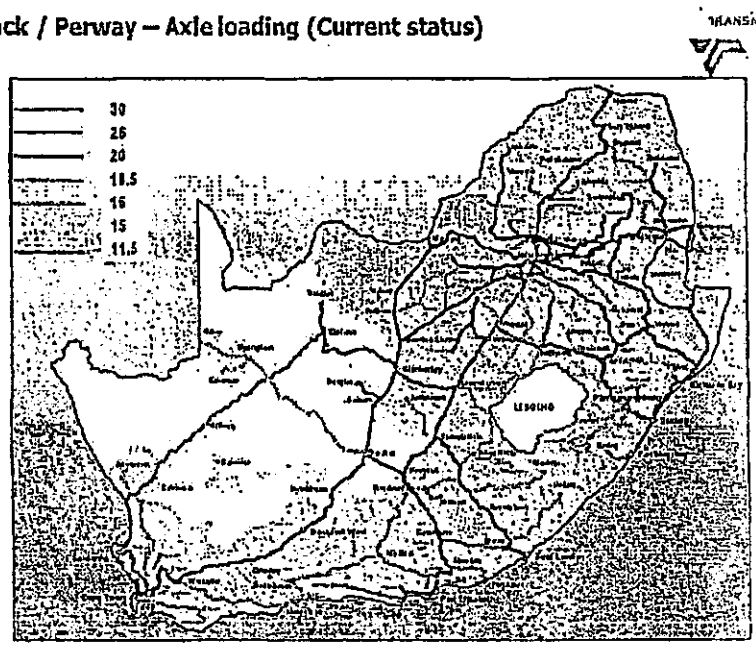


EXHIBIT 76

Electrification (Current status)

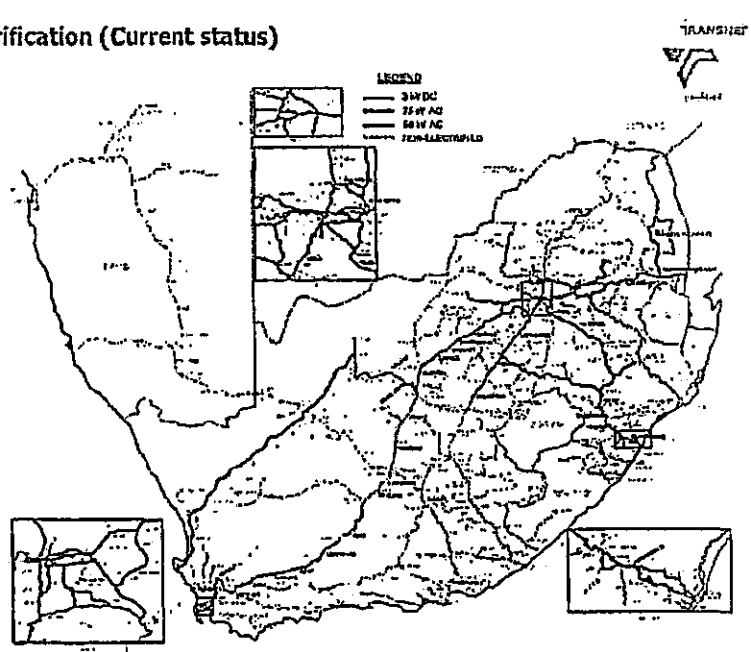


EXHIBIT 77

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	• Increase axle loading • Increase coal line capacity to 81mt • Eskom 32mt project • Partial doubling of RCB-Nsezi line • Waterberg – Phases 2-5 additional passing loops • Manganese 16mtpa (Hotazel – Coega) • Swazi rail link 15mt • Increase axle loading on Groenbult- Hoedspruit	• Increase axle loading • Increase coal line capacity to 81mt • Coal 91mt project (including Overvaal tunnel-doubling) • Eskom 32mt project • Geluksplaas grade separation • Line tripling Broodsnyersplaas-Ermelo • Waterberg – Phases 2-5 additional passing loops • Manganese 16mtpa (Hotazel – Coega) • Ore line Phase 2A to 82.5mtpa • Swazi rail link 15mt	• Increase axle loading • Overall tunnel doubling • Coal 91mt project (including Overvaal tunnel doubling) • Eskom 32mt project • Line tripling Broodsnyersplaas-Ermelo • Swazi rail link 15mt • Doubling of all critical deviations
Infrastructure expansion: Electrical	• Increase electrical capacity on the AC section on the coal line • Upgrade section Rooikop-Newcastle, Manganese 16mtpa New and Upgraded sub-stations and OHTE	• Manganese 16mtpa New and Upgraded substations • Ore line Phase 2A to 82.5mtpa power upgrade (including of 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 25kVAC Ermelo-Pyramid South	• 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	• Manganese 16mtpa	• Pyramid South – Lephalale: Communication based authorisation (CBA) pilot installation • Manganese 16mtpa	• Commence with the re-signaling of the coal line (CBA)

EXHIBIT 78

Track / Perway – Axle loading (Future status)

TRANSNET

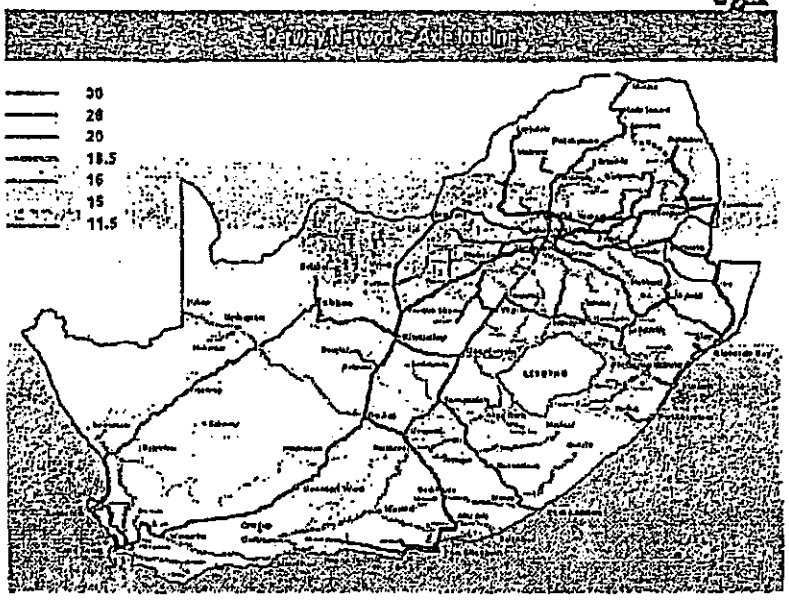


EXHIBIT 79

Electrification (Future status)

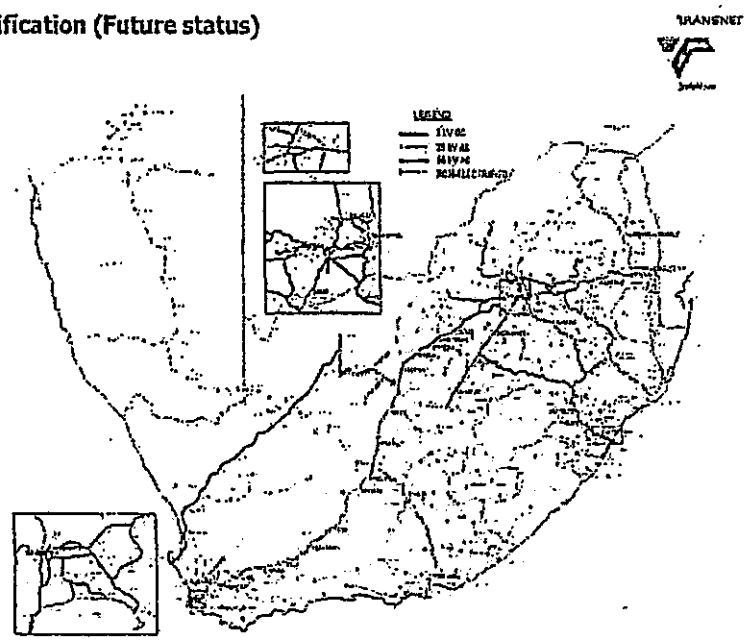


EXHIBIT 80

Maintenance infrastructure expenditure timeline (1/3)

Business focus	Preparation for growth (zero to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure maintenance: sustaining Perway	• Increase on-track machines capacity and productivity • Accelerated rail replacement (765km to 865km) • Increase sleeper replacement (460 000 – 550 000/year) • Increase ballast screening (690km – 750km) • Ore line rail break mitigation plan. Wayside Intelligent Longstress measurement System (WILMA), Ultrasonic Broken Rail Detector System (UBRD) • Longstress measurement system (WILMA) – Natcor and coal line • Infrastructure sustains (General Freight business) tunnels and bridges • Additional three rail trains • Level crossing elimination/Level crossing protection (new bridges/protection systems) • Drainage rehabilitation • Formation rehabilitation • Install wheel impact monitoring and weigh-in motion (WIM-WIM) system	• 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 weigh-in motion (WIM-WIM) system	• 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 Sustain (General Freight business) tunnels and bridges • UBRD systems on General Freight businesses core lines • Level crossing elimination/level crossing protection (new bridges/protection systems) • Drainage rehabilitation • Formation rehabilitation

EXHIBIT 81

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	• Primary circuit breaker replacement • Track breaker replacement • Upgrade and replace switchgear (distribution subs) • Traction substations 25-year lifecycle intervention • Traction substations 50-year lifecycle intervention • Sabotage/vandalism/theft projects	• Primary circuit breaker replacement • Track breaker replacement • Upgrade and replace switchgear (distribution subs) • Traction substations 25-year lifecycle intervention • Traction substations 50-year lifecycle intervention • Sabotage/vandalism/theft projects	• Traction substations 25-year lifecycle intervention • Traction substations 50-year lifecycle intervention • Sabotage/vandalism/theft projects
Infrastructure maintenance: Sustaining signalling	• 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, Manganese corridor, Natal, Sentrand area, Houtkeuwel – Khayelitsha) • Installation of electronic interlocking systems (three pilot sites) • Resignalling of Kamfersdam – Postmasburg • Resignalling of Bellville – Wellington • Resignalling of Umgeni – Stanger • In-motion weighbridges • Upgrade/replace measurement systems	• 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, Empangeni, Ogies) • Rationalisation of signalling systems in the central region (Gauteng area) • Remodeling track layout and resignalling Gauteng area (Elsburg – India – Jupiter – Wattle) • Resignalling of Bellville – Wellington • Resignalling of Umgeni – Stanger • Replace PEL interlockings in the Karoo and Port Elizabeth • Upgrade/replace measurement systems	• Subsystem replacement to extend life (e.g., replace track circuits, remote control systems, power equipment) • Migrate systems from copper to optic fibre • Replace PEL interlockings in the Karoo and Port Elizabeth • Coal line: Upgrade/replace the Vehicle Identification System (VIS) • Resignalling projects on General Freight business lines commence

EXHIBIT 82

Maintenance infrastructure expenditure timeline (3/3)

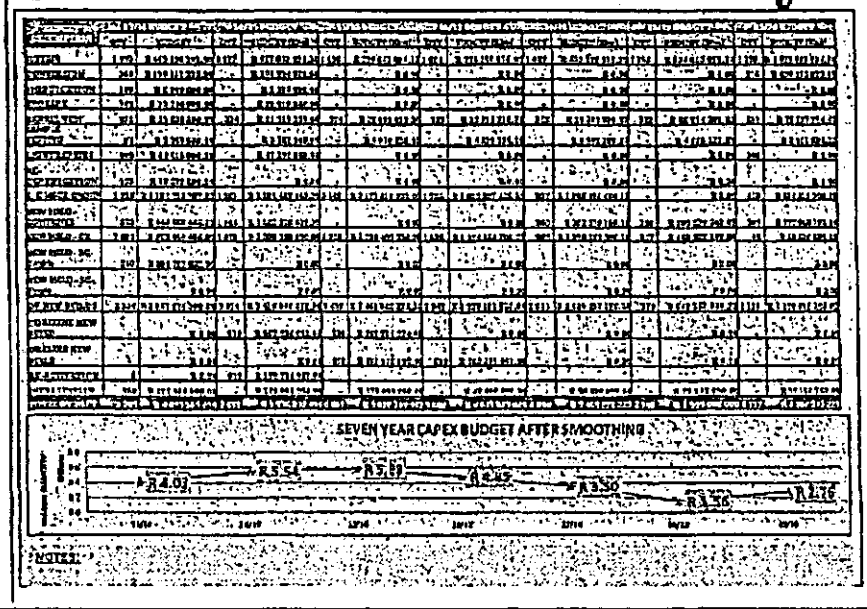
Business focus	Preparation for growth (zero to two years)	Sustained growth (two to five years)	Consolidate (five to seven years)
Infrastructure maintenance: Sustaining telecoms	• Upgrade national optical fibre cable network • Upgrade and replace access multiplexers • Improve train communication in rail tunnels countywide • Provision of new telecommunication backbone infrastructure • Train radios Phase 4 • Replace unstable masts and towers • De-copper in Empangeni, Ermelo and Ogies	• Upgrade national optical fibre cable network • Upgrade and replace access multiplexers • Improve train communication in rail tunnels countywide • Provision of new telecommunication backbone infrastructure • Train radios Phase 4 • Replace unstable masts and towers	• Upgrade national optical fibre cable network • Upgrade and replace access multiplexers

12. Wagon requirements

EXHIBIT 83

TRANSNET

PROPOSED CAPEX BUDGET OVER SEVEN YEARS AFTER SMOOTHING



13. Locomotive types and capacity

EXHIBIT 84

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	1,006
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	34,025	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.

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 85

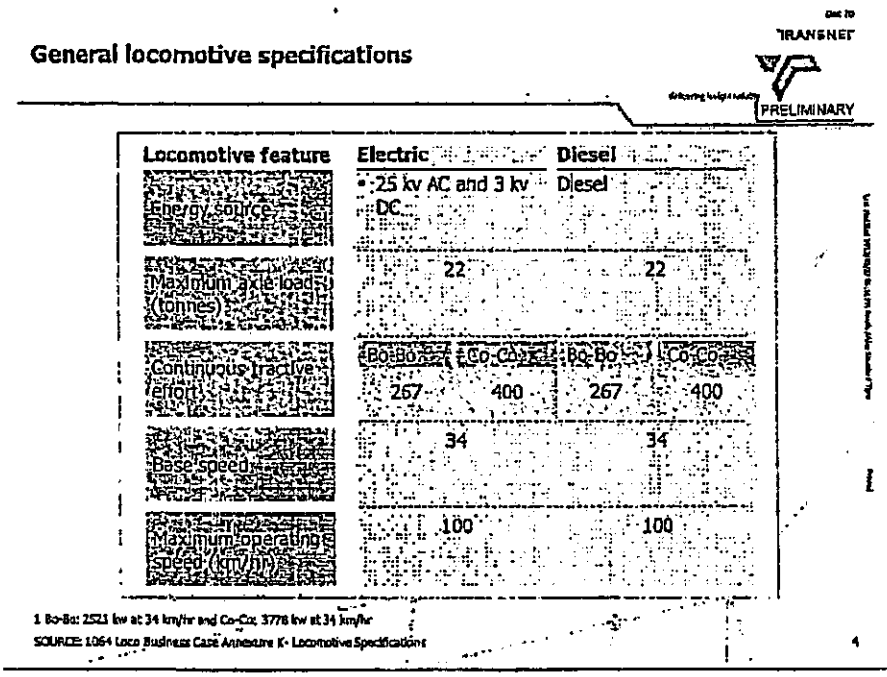


Exhibit 9, above, shows the high-level specifications of the locomotives to be procured. A major feature of the procurement is that it offers suppliers the choice of providing either Bo-Bo[9] or Co-Co[10] wheel configurations. It also requires the electric locomotives to run on both AC and DC lines given 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 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.

[9] Two-wheel configuration

[10] Three-wheel configuration

- 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 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.

Project Authorisation Signatures

Transnet Freight Rail

Submission supported:

Rita Roper **General Manager, Capital Projects**	**Date**

Submission supported:

Mlamuli Buthelezi **Chief Operating Officer**	**Date**

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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MINUTES OF THE BOARD OF DIRECTORS OF TRANSNET SOC LTD MEETING NO. 12/3 HELD ON 25 APRIL 2012 AT 08:30 IN THE 3RD FLOOR BOARDROOM, PORT TERMINAL BUILDING, NGQURA CONTAINER TERMINAL, PORT ELIZABETH

Resolution No/

8 MATTERS FOR DISCUSSION/APPROVAL

8.15 Procurement of 1064 GFB locomotives

8.15.1 Management took the Board through the submission as contained in the pack. The submission was taken as read. The submission was recommended by the Board Acquisitions and Disposals Committee to the Board for approval.

8.15.2 The Chairman indicated that the Board Acquisitions and Disposals Committee recommended that Mr Skosana be co-opted into the Board Acquisitions and Disposals Committee to provide financial expertise in the procurement of the 1064 GFB locomotives.

RESOLVED that the Board approves the following:

- The process that will be followed for the acquisition of the 1064 GFB locomotives with reference to procurement strategy and process, Capital and Financial Risk, subject to PFMA approval.
- Delegates authority to the GCE to approve the issue of the RFPs, subject to PFMA approval.
- The co-opting of Mr Skosana into the Board Acquisitions and Disposals Committee to assist with financial expertise on procurement activities for the 1064 GFB locomotives. 12/3/15

Appendix 36 761

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1990/000900/30

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TRANSNET

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MEMORANDUM

To: Brian Molefe, Group Chief Executive Officer

From: Anoj Singh, Group Chief Financial Officer

Date: 29 April 2013

SUBJECT: ACQUISITION OF 1064 LOCOMOTIVES FOR GFB - ACCEPTANCE OF FINAL BUSINESS CASE

PURPOSE:

1. The purpose of this memo is for the GCE to sign off the final business case for the Acquisition of 1064 locomotives for GFB after changes from BADC and the Board that will be provided to the Minister of Public Enterprises as an annexure to the application for approval of the proposed investment in terms of section 54 of the PFMA.

BACKGROUND:

2. The business case has undergone numerous reviews and iterations in the past year during its development. The Locomotive Steering Committee has overseen its development as an additional level of governance.

3. Transnet has also engaged the Shareholder representatives over the past year as part of our continuous engagement activities with stakeholders.

DISCUSSION:

4. The business case was submitted to a Special BADC on 23 April 2013 and a Special Board meeting on 25 April 2013. An interactive session was arranged with the Shareholder representatives on 25 April 2013.

5. The business case has been amended to incorporate all changes and suggested inclusions from the BADC meeting. The business case has also been updated to incorporate certain changes and informational requirements stemming from the session with the DPE.

6. Other information requirements are not related to the business case itself and will be provided to the DPE in the next interactive session which is planned for a day in the week of 6-10 May 2013.

FINANCIAL IMPLICATIONS:

7. There are no financial implications relating to this memo as it is a reques to reach

finality on the business case.

BUDGET IMPLICATIONS:

8. Due to the reasons indicated above there are no budgetary implications.

APPROVALS AND DELEGATIONS:

9. Consensus and acceptance is required to be reached between the TFR Chief Executive, Group Chief Financial Officer and Group Chief Executive Officer on the finality of the business case.

RECOMMENDATION:

10. It is recommended that the GCE sign off the final business case for the Acquisition of 1064 locomotives for GFB after changes from BADC and the Board that will be provided to the Minister of Public Enterprises as an annexure to the application for approval of the proposed investment in terms of section 54 of the PFMA.

Prepared by:

Niresh Budhai
Manager: Capital Investment
Date:

Approved by:

Siyabonga Gama
Chief Executive: Transnet Freight Rail
Date: 2013.04.30

Approved by:

Anoj Singh
Group Chief Financial Officer
Date: 30/04/13

Approved by:

Brian Molefe
Group Chief Executive Officer
Date: 30.4.13

Sent: 26 April 2013 08:29 PM
To: Francis Callard Transnet Freight Rail JHB; Garry Pita Transnet Corporate JHB; Johan Bouwer Transnet Freight Rail JHB; Mathane Makgatho Corporate JHB; Natasia McMahon Transnet Freight Rail JHB; Niresh Budhal Transnet Corporate JHB; Pragasen Pillay Transnet Freight Rail JHB; Thamsanqa Jiyane Transnet Freight Rail JHB; Thembi Lekganyane Transnet Freight Rail JHB; Yusuf Mahomed Transnet Corporate JHB; alinafe_thupa@mckinsey.com; fabio_pedrazzi@mckinsey.com; nischal_baijnath@mckinsey.com; vikas_sagar@mckinsey.com
Subject: Re: Business case approval - Your input needed

Hi all,

Thanks to those that were able to send across their inputs today. The updated status sheet is attached.

For those of you that have not sent inputs across yet, it would be great if you could bring them with you on Monday at 9am. Per Thembi's invite, we are meeting at Carlton Centre, Rm 4465. Looking forward to catching up then.

Have a nice weekend.

Naseem

(See attached file: 20130426 1830 Status of BADC and DPE questions.xlsx)

Naseem Saloojee
McKinsey & Company
+27 83 659 1221 (South Africa)
+1 647 622 9173 (Canada)

Naseem Saloojee—26/04/2013 12:08:01 PM—Hi team, I'm sending this note out on Thembi's behalf, as she is in facilitation sessions today.

From: Naseem Saloojee/TOR/NorthAmerica/MCKINSEY
To: "Francis Callard Transnet Freight Rail JHB" <Francis.Callard@transnet.net>, "Garry Pita Transnet Corporate JHB" <Garry.Pita@transnet.net>, "Johan Bouwer Transnet Freight Rail JHB" <Johan.Bouwer@transnet.net>, "Natasia McMahon Transnet Freight Rail JHB" <Natasia.McMahon@transnet.net>, "Niresh Budhal Transnet Corporate JHB" <Niresh.Budhal@transnet.net>, "Pragasen Pillay Transnet Freight Rail JHB" <Pragasen.Pillay@transnet.net>, "Thamsanqa Jiyane Transnet Freight Rail JHB" <Thamsanqa.Jiyane@transnet.net>, "danie smit" <danie.smit@transnet.bet>, "Mathane Makgatho Corporate JHB" <Mathane.Makgatho@transnet.net>, alinafe_thupa@mckinsey.com, nischal_baijnath@mckinsey.com, fabio_pedrazzi@mckinsey.com, Vikas Sagar/JOH/Africa/MCKINSEY@MCKINSEY
Cc: Thembi Lekganyane Transnet Freight Rail JHB <Thembi.Lekganyane@transnet.net>, "Anoj Singh Corporate JHB" <Anoj.Singh@transnet.net>, Yusuf Mahomed Transnet Corporate JHB <Yusuf.Mahomed@transnet.net>
Date: 26/04/2013 12:08 PM
Subject: Business case approval - Your input needed

Hi team,

I'm sending this note out on Thembi's behalf, as she is in facilitation sessions today.

Congratulations on the great work done to-date! We have now received business case approval from BADC and Board, contingent on the integration of answers to a few final clarification questions.

To get us ready to submit the business case to DPE on Monday afternoon, we must answer these questions as well as a few that were raised by DPE yesterday. The questions, as well as suggested responsible parties, are attached in the excel sheet below. I understand that some of the DPE questions in particular have already been answered, as DPE only reviewed a presentation rather than the fully completed case.

Please take a look through this list to ensure that we have not missed anything, as I know that many of you were in the DPE session. In addition, please review the items for which you are responsible and send these to the McKinsey team as soon as possible, preferably by end of day today. Should you require clarifications, please reach out to Naseem from McKinsey on 083 659 1221. We will send around a revised list of questions by end of day today, including status updates with progress made against the various items.

Let's be prepared to meet together from 09:00 to 12:30 on Monday to integrate all of our answers to the questions

Appendix 38 764

MINISTRY
PUBLIC ENTERPRISES
REPUBLIC OF SOUTH AFRICA

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Mr. Mafika Mkwanazi
Chairman
Transnet SOC limited
P.O. Box 72501
Parkview
Johannesburg
2122

Tel: 011 308 2309
Fax: 011 308 2312

Dear Mr. Mkwanazi

Transnet PFMA Application for the Acquisition of 1064 Locomotives

I refer to the PFMA Section 54 application dated the 2nd of May 2013 regarding the acquisition of 1064 locomotives.

I note Transnet's commitment to the National Growth Path and the National Development Plan objectives.

I also appreciate that this acquisition will go a long way to provide the much needed capacity to realise the Market Demand Strategy volumes, and thereby contribute to the road to rail migration objective. I also expect that we will see significant improvements in operational efficiencies resulting from this procurement. In addition, due to the scale and duration of locomotive fleet procurement, it is critical that we maximise the localisation impact in the process.

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 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.
4. Transnet provides the Department with a view of the localisation strategy for the following strategic components:
   - 4.1 Traction convertor;
   - 4.2 Traction motor;
     - 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.

I trust that you will find the above in order.

Yours sincerely

MR. MALUSI GIGABA, MP
MINISTER OF PUBLIC ENTERPRISES
DATE: 2013/08/23